
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended **June 30, 2017**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number: **001-36448**

Bankwell Financial Group, Inc.

(Exact Name of Registrant as specified in its Charter)

Connecticut

(State or other jurisdiction of
Incorporation or organization)

20-8251355

(I.R.S. Employer
Identification No.)

220 Elm Street

New Canaan, Connecticut 06840

(203) 652-0166

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Accelerated filer ☒

Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

As of July 31, 2017, there were 7,684,450 shares of the registrant's common stock outstanding.

BANKWELL FINANCIAL GROUP, INC.
FORM 10-Q

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PART 1 – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

BANKWELL FINANCIAL GROUP, INC.

CONSOLIDATED BALANCE SHEETS - (UNAUDITED)

(Dollars in thousands, except share data)

	June 30, 2017	December 31, 2016
ASSETS		
Cash and due from banks	\$ 84,802	\$ 96,026
Federal funds sold	1,185	329
Cash and cash equivalents	85,987	96,355
Available for sale investment securities, at fair value	90,951	87,751
Held to maturity investment securities, at amortized cost	23,615	16,859
Loans held for sale	-	254
Loans receivable (net of allowance for loan losses of \$19,536 at June 30, 2017 and \$17,982 at December 31, 2016)	1,463,240	1,343,895
Foreclosed real estate	222	272
Accrued interest receivable	5,239	4,958
Federal Home Loan Bank stock, at cost	8,033	7,943
Premises and equipment, net	17,366	17,835
Bank-owned life insurance	39,034	33,448
Goodwill	2,589	2,589
Other intangible assets	438	501
Deferred income taxes, net	8,957	9,085
Other assets	10,133	7,174
Total assets	\$ 1,755,804	\$ 1,628,919
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest bearing deposits	\$ 176,495	\$ 187,593
Interest bearing deposits	1,237,790	1,101,444
Total deposits	1,414,285	1,289,037
Advances from the Federal Home Loan Bank	150,000	160,000
Subordinated debentures	25,077	25,051
Accrued expenses and other liabilities	12,865	8,936
Total liabilities	1,602,227	1,483,024
Commitments and Contingencies		
Shareholders' equity		
Common stock, no par value; 10,000,000 shares authorized, 7,673,850 and 7,620,663 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively	116,502	115,353
Retained earnings	36,053	29,652
Accumulated other comprehensive income	1,022	890
Total shareholders' equity	153,577	145,895
Total liabilities and shareholders' equity	\$ 1,755,804	\$ 1,628,919

See accompanying notes to consolidated financial statements (unaudited)

BANKWELL FINANCIAL GROUP, INC.
CONSOLIDATED STATEMENTS OF INCOME – (UNAUDITED)
(Dollars in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Interest and dividend income				
Interest and fees on loans	\$ 16,660	\$ 13,970	\$ 32,173	\$ 27,253
Interest and dividends on securities	880	711	1,689	1,395
Interest on cash and cash equivalents	148	30	262	67
Total interest income	17,688	14,711	34,124	28,715
Interest expense				
Interest expense on deposits	3,095	1,962	5,676	3,702
Interest on borrowings	952	870	1,859	1,736
Total interest expense	4,047	2,832	7,535	5,438
Net interest income	13,641	11,879	26,589	23,277
Provision for loan losses	895	1,301	1,438	1,947
Net interest income after provision for loan losses	12,746	10,578	25,151	21,330
Noninterest income				
Bank owned life insurance	295	174	586	348
Service charges and fees	261	235	501	480
Gains and fees from sales of loans	199	114	523	224
Gain on sale of foreclosed real estate, net	-	128	-	128
Net gain on sale of available for sale securities	-	92	165	92
Other	243	110	489	253
Total noninterest income	998	853	2,264	1,525
Noninterest expense				
Salaries and employee benefits	3,800	3,747	7,729	7,484
Occupancy and equipment	1,439	1,392	3,131	2,800
Professional services	523	370	935	736
Data processing	401	377	846	784
Marketing	311	263	577	402
FDIC insurance	243	168	626	337
Director fees	243	210	476	439
Foreclosed real estate	60	30	67	102
Amortization of intangibles	31	40	62	80
Other	530	618	1,366	1,131
Total noninterest expense	7,581	7,215	15,815	14,295
Income before income tax expense	6,163	4,216	11,600	8,560
Income tax expense	2,394	1,320	4,129	2,673
Net income	<u>\$ 3,769</u>	<u>\$ 2,896</u>	<u>\$ 7,471</u>	<u>\$ 5,887</u>
Earnings Per Common Share:				
Basic	\$ 0.49	\$ 0.38	\$ 0.98	\$ 0.78
Diluted	0.49	0.38	0.97	0.78
Weighted Average Common Shares Outstanding:				
Basic	7,550,734	7,387,712	7,538,069	7,383,965
Diluted	7,645,930	7,467,954	7,638,350	7,446,456
Dividends per common share	\$ 0.07	\$ 0.05	\$ 0.14	\$ 0.10

See accompanying notes to consolidated financial statements (unaudited)

BANKWELL FINANCIAL GROUP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME – (UNAUDITED)
(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	\$ 3,769	\$ 2,896	\$ 7,471	\$ 5,887
Other comprehensive (loss) income:				
Unrealized gains on securities:				
Unrealized holding gains on available for sale securities	293	332	453	1,357
Reclassification adjustment for gain realized in net income	-	(92)	(165)	(92)
Net change in unrealized gains	293	240	288	1,265
Income tax expense	(103)	(84)	(101)	(443)
Unrealized gains on securities, net of tax	190	156	187	822
Unrealized losses on interest rate swaps:				
Unrealized losses on interest rate swaps designated as cash flow hedges	(302)	(643)	(84)	(2,051)
Income tax benefit	105	225	29	718
Unrealized losses on interest rate swaps, net of tax	(197)	(418)	(55)	(1,333)
Total other comprehensive (loss) income, net of tax	(7)	(262)	132	(511)
Comprehensive income	<u>\$ 3,762</u>	<u>\$ 2,634</u>	<u>\$ 7,603</u>	<u>\$ 5,376</u>

See accompanying notes to consolidated financial statements (unaudited)

BANKWELL FINANCIAL GROUP, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY – (UNAUDITED)
(In thousands, except share data)

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares Outstanding	Amount			
Balance at December 31, 2016	7,620,663	\$ 115,353	\$ 29,652	\$ 890	\$ 145,895
Net income	-	-	7,471	-	7,471
Other comprehensive income, net of tax	-	-	-	132	132
Cash dividends declared (\$0.14 per share)	-	-	(1,070)	-	(1,070)
Stock-based compensation expense	-	434	-	-	434
Forfeitures of restricted stock	(14,774)	-	-	-	-
Issuance of restricted stock	28,250	-	-	-	-
Warrants exercised	11,200	200	-	-	200
Stock options exercised	28,511	515	-	-	515
Balance at June 30, 2017	7,673,850	\$ 116,502	\$ 36,053	\$ 1,022	\$ 153,577

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares Outstanding	Amount			
Balance at December 31, 2015	7,516,291	\$ 112,579	\$ 18,963	\$ 227	\$ 131,769
Net income	-	-	5,887	-	5,887
Other comprehensive loss, net of tax	-	-	-	(511)	(511)
Cash dividends declared (\$0.10 per share)	-	-	(753)	-	(753)
Stock-based compensation expense	-	506	-	-	506
Forfeitures of restricted stock	(633)	-	-	-	-
Issuance of restricted stock	14,300	-	-	-	-
Stock options exercised	14,500	224	-	-	224
Balance at June 30, 2016	7,544,458	\$ 113,309	\$ 24,097	\$ (284)	\$ 137,122

See accompanying notes to consolidated financial statements (unaudited)

BANKWELL FINANCIAL GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS – (UNAUDITED)
(In thousands)

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities		
Net income	\$ 7,471	\$ 5,887
Adjustments to reconcile net income to net cash provided by operating activities:		
Net (accretion) amortization of premiums and discounts		
on investment securities	(17)	369
Provision for loan losses	1,438	1,947
Provision for (benefit from) deferred taxes	56	(875)
Net gain on sales of available for sale securities	(165)	(92)
Depreciation and amortization	760	865
Increase in cash surrender value of bank-owned life insurance	(586)	(348)
Loan principal sold	(9,543)	(3,555)
Proceeds from sales of loans	10,319	3,779
Net gain on sales of loans	(523)	(224)
Stock-based compensation	434	506
Net accretion of purchase accounting adjustments	(49)	(73)
Gain on sale and write-downs of foreclosed real estate	50	62
Amortization of debt issuance costs	26	26
Net change in:		
Deferred loan fees	(550)	304
Accrued interest receivable	(281)	(637)
Other assets	(2,920)	(2,736)
Accrued expenses and other liabilities	3,929	1,721
Net cash provided by operating activities	9,849	6,926
Cash flows from investing activities		
Proceeds from principal repayments on available for sale securities	2,003	650
Proceeds from principal repayments on held to maturity securities	98	104
Net proceeds from sales and calls of available for sale securities	49,555	8,308
Purchases of available for sale securities	(54,290)	(51,228)
Purchases of held to maturity securities	(6,852)	(6,835)
Purchase of bank-owned life insurance	(5,000)	-
Net increase in loans	(120,260)	(129,494)
Purchases of premises and equipment	(291)	(361)
Purchase of Federal Home Loan Bank stock	(90)	(839)
Proceeds from sale of foreclosed real estate	-	694
Net cash used by investing activities	(135,127)	(179,001)

CONSOLIDATED STATEMENTS OF CASH FLOWS - (Continued)
(In thousands)

	Six Months Ended June 30,	
	2017	2016
Cash flows from financing activities		
Net change in time certificates of deposit	\$ 53,451	\$ 107,009
Net change in other deposits	71,814	26,675
Net change in FHLB advances	(10,000)	45,000
Proceeds from exercise of warrants	200	-
Proceeds from exercise of options	515	224
Dividends paid on common stock	(1,070)	(753)
Net cash provided by financing activities	114,910	178,155
Net (decrease) increase in cash and cash equivalents	(10,368)	6,080
Cash and cash equivalents:		
Beginning of year	96,355	88,597
End of period	\$ 85,987	\$ 94,677
Supplemental disclosures of cash flows information:		
Cash paid for:		
Interest	\$ 7,528	\$ 5,405
Income taxes	3,565	4,479
Supplemental disclosures of non-cash investing activities:		
Net change in unrealized gains on available-for-sale securities	288	1,265

See accompanying notes to consolidated financial statements (unaudited)

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Bankwell Financial Group, Inc. (the “Company” or “Bankwell”) is a bank holding company headquartered in New Canaan, Connecticut. The Company offers a broad range of financial services through its banking subsidiary, Bankwell Bank (the “Bank”). The Bank was originally chartered as two separate banks, The Bank of New Canaan (“BNC”) and The Bank of Fairfield (“TBF”). In September 2013, BNC and TBF were merged and rebranded as “Bankwell Bank.” In November 2013, the Bank acquired The Wilton Bank (“Wilton”), which added one branch and approximately \$25.1 million in loans and \$64.2 million in deposits. In October 2014, the Bank acquired Quinnipiac Bank and Trust Company (“Quinnipiac”) which added two branches and approximately \$97.8 million in loans and \$100.6 million in deposits.

On May 15, 2014, the Company priced 2,702,703 common shares in its initial public offering (“IPO”) at \$18.00 per share and Bankwell common shares began trading on the Nasdaq Stock Market. The Company issued a total of 2,702,703 common shares in its IPO, which closed on May 20, 2014. The net proceeds from the IPO were approximately \$44.7 million, after deducting the underwriting discount of approximately \$2.5 million and approximately \$1.3 million of expenses.

The Bank is a Connecticut state chartered commercial bank, founded in 2002, whose deposits are insured under the Deposit Insurance Fund administered by the Federal Deposit Insurance Corporation (“FDIC”). The Bank provides a full range of banking services to commercial and consumer customers, primarily concentrated in the New York metropolitan area, with the majority of our loans in Fairfield and New Haven Counties, Connecticut, with branch locations in New Canaan, Stamford, Fairfield, Wilton, Norwalk, Hamden and North Haven, Connecticut.

Principles of consolidation

The consolidated interim financial statements include the accounts of the Company and the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of estimates

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America (“GAAP”) and general practices within the banking industry. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities as of the date of the consolidated balance sheet and revenue and expenses for the period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the allowance for loan losses, stock-based compensation, derivative instrument valuation, investment securities valuation, evaluation of investment securities for other than temporary impairment and deferred income taxes valuation.

Basis of consolidated financial statement presentation

The unaudited consolidated financial statements presented herein have been prepared pursuant to the rules of the Securities and Exchange Commission (“SEC”) for quarterly reports on Form 10-Q and Rule 10-1 of Regulation S-X and do not include all of the information and note disclosures required by GAAP. In the opinion of management, all adjustments (consisting of normal recurring adjustments) and disclosures considered necessary for the fair presentation of the accompanying unaudited interim consolidated financial statements have been included. Interim results are not necessarily reflective of the results that may be expected for the year ending December 31, 2017. The accompanying unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included on Form 10-K for the year ended December 31, 2016.

BANKWELL FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)

Significant concentrations of credit risk

Most of the Company's activities are with customers located within the New York metropolitan area, with the majority of our loans in Fairfield and New Haven Counties, Connecticut, and declines in property values in these areas could significantly impact the Company. The Company has significant concentrations in commercial real estate loans. Management does not believe they present any special risk. The Company does not have any significant concentrations in any one industry or customer.

Reclassification

Certain prior period amounts have been reclassified to conform to the 2017 financial statement presentation. These reclassifications only changed the reporting categories and did not affect the consolidated results of operations or consolidated financial position.

Subsequent Events

In accordance with FASB ASC 855, "Subsequent Events," Bankwell has evaluated all events or transactions occurring after June 30, 2017, the balance sheet date, and noted that there have been no such events or transactions that would require recognition or disclosure in the consolidated financial statements as of and for the quarter ended June 30, 2017.

Recent accounting pronouncements

The following section includes changes in accounting principles and potential effects of new accounting guidance and pronouncements.

ASU No. 2014-09 – Revenue from Contracts with Customers (Topic 606) . The ASU establishes a single comprehensive model for an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled, and will supersede nearly all existing revenue recognition guidance, to clarify and converge revenue recognition principles under US GAAP and IFRS. The update outlines five steps to recognizing revenue: (i) identify the contracts with the customer; (ii) identify the separate performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the separate performance obligations; (v) recognize revenue when each performance obligation is satisfied. The update requires more comprehensive disclosures, relating to quantitative and qualitative information for amounts, timing, the nature and uncertainty of revenue, and cash flows arising from contracts with customers, which will mainly impact construction and high-tech industries. The most significant potential impact to banking entities relates to less prescriptive derecognition requirements on the sale of OREO property. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date. The amendments in ASU 2015-14 defer the effective date of ASU 2014-09 for all entities by one year. Accordingly, the amendments are effective for annual and interim periods beginning after December 15, 2017. Early adoption is permitted for annual and interim reporting periods beginning after December 15, 2016. An entity may elect either a full retrospective or a modified retrospective application. The Company does not expect the application of this guidance to have a material impact on the Company's financial statements.

ASU No. 2015-03, Interest Imputation of Interest (Subtopic 835-20): "Simplifying the Presentation of Debt Issuance Costs." The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The amendments are effective for annual and interim periods beginning after December 15, 2015, with early adoption permitted. The Company elected to early adopt the provisions of ASU 2015-03 upon issuance of its subordinated debentures on August 19, 2015 and recorded \$0.5 million of debt issuance costs incurred as a direct deduction from the debt liability.

ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10): “Recognition and Measurement of Financial Assets and Financial Liabilities.” The ASU has been issued to improve the recognition and measurement of financial instruments by requiring 1) equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; 2) separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements; 3) the use of the exit price notion when measuring fair value of financial instruments for disclosure purposes; and 4) separate presentation by the reporting organization in other comprehensive income for the portion of the total change in the fair value of a liability resulting from the change in the instrument-specific credit risk (also referred to as “own credit”) when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. The standard is effective for the Company beginning on January 1, 2018. The Company does not expect the application of this guidance to have a material impact on the Company’s financial statements.

ASU 2016-02, Leases (Topic 842). The amendments in this ASU require lessees to recognize, on the balance sheet, assets and liabilities for the rights and obligations created by leases. Accounting by lessors will remain largely unchanged. The guidance will be effective for the Company, on January 1, 2019, with early adoption permitted. Adoption will require a modified retrospective transition where the lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented. The Company does not expect the application of this guidance to have a material impact on the Company’s financial statements.

ASU 2016-09, Compensation Stock – Compensation (Topic 718): “Improvements to Employee Share Based Payment Accounting.” This ASU changes how companies account for certain aspects of share based payments to employees. Entities will be required to recognize all excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) as income tax expense or benefit in the income statement and the tax effects of exercised or vested awards will be treated as discrete items in the reporting period in which they occur. This ASU also simplifies several other aspects of accounting for share-based payments including; classification of excess tax benefits on the statement of cash flows; forfeitures; statutory tax withholding requirements; classification of awards and; classification of employee taxes paid on the statement of cash flows when an employer withholds shares for tax-withholding purposes. The amendments in this update were effective for the Company on January 1, 2017 and interim periods within that annual period. The application of this guidance did not have a material impact on the Company’s financial statements.

ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The ASU changes the impairment model for most financial assets and certain other instruments. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, entities will be required to use a new forward-looking “expected loss” model that will replace today’s “incurred loss” model and can result in the earlier recognition of credit losses. For available-for-sale debt securities with unrealized losses, entities will measure credit losses in a manner similar to current practice, except that the losses will be recognized as an allowance. The amendments in this update will be effective for the Company on January 1, 2020, including interim periods within that fiscal year. Early adoption is permitted as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Management is currently evaluating the impact of its pending adoption of this guidance on the Company’s financial statements.

ASU No. 2016-15, Statement of Cash Flows (Topic 230): “Classification of Certain Cash Receipts and Cash Payments.” This ASU changes how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flows, and other Topics. The amendments address the classification of the following eight items in the statement of cash flows; debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions and separately identifiable cash flows and application of the Predominance Principle. The amendments in this update are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company does not expect the application of this guidance to have a material impact on the Company’s financial statements.

ASU No. 2016-18, Statement of Cash Flows (Topic 230): “Restricted Cash” This ASU provide guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. The amendments in this Update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company does not expect the application of this guidance to have a material impact on the Company’s financial statements.

ASU No. 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment: This ASU simplifies the test for goodwill impairment by eliminating step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity was required to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under the amendments in this Update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. In addition, this ASU also eliminated the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. Therefore, the same impairment assessment applies to all reporting units. An entity is required to disclose the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The amendments will be effective for the Company for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not expect the application of this guidance to have a material impact on the Company’s financial statements.

ASU No. 2017-08, Receivables – Nonrefundable Fees and Other Costs (subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities: The amendments in this Update shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amendments will be effective for the Company for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company does not expect the application of this guidance to have a material impact on the Company's financial statements.

ASU No. 2017-09, Compensation – Stock Compensation (Topic 718): The amendments in this Update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The amendments in this Update are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017, early adoption is permitted. The Company does not expect the application of this guidance to have a material impact on the Company's financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)

2. INVESTMENT SECURITIES

The amortized cost, gross unrealized gains and losses and fair value of available for sale and held to maturity securities at June 30, 2017 were as follows:

	June 30, 2017			
	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
	(In thousands)			
Available for sale securities:				
U.S. Government and agency obligations				
Due from one through five years	\$ 12,987	\$ 86	\$ (28)	\$ 13,045
Due after ten years	52,762	312	(38)	53,036
	<u>65,749</u>	<u>398</u>	<u>(66)</u>	<u>66,081</u>
State agency and municipal obligations				
Due from one through five years	1,630	84	-	1,714
Due from five through ten years	9,239	305	-	9,544
Due after ten years	3,285	113	(43)	3,355
	<u>14,154</u>	<u>502</u>	<u>(43)</u>	<u>14,613</u>
Corporate bonds				
Due in less than one year	3,015	29	-	3,044
Due from one through five years	7,113	100	-	7,213
	<u>10,128</u>	<u>129</u>	<u>-</u>	<u>10,257</u>
Total available for sale securities	<u>\$ 90,031</u>	<u>\$ 1,029</u>	<u>\$ (109)</u>	<u>\$ 90,951</u>
Held to maturity securities:				
State agency and municipal obligations				
Due in less than one year	\$ 2,134	\$ -	\$ -	\$ 2,134
Due from one through five years	3,872	-	-	3,872
Due after ten years	16,477	-	-	16,477
	<u>22,483</u>	<u>-</u>	<u>-</u>	<u>22,483</u>
Corporate bonds				
Due from one through five years	1,000	-	(13)	987
Government-sponsored mortgage backed securities				
No contractual maturity	132	12	-	144
Total held to maturity securities	\$ 23,615	\$ 12	\$ (13)	\$ 23,614

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)

The amortized cost, gross unrealized gains and losses and fair value of available for sale and held to maturity securities at December 31, 2016 were as follows:

	December 31, 2016			
	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
	(In thousands)			
Available for sale securities:				
U.S. Government and agency obligations				
Due from one through five years	\$ 62,357	\$ 295	\$ (49)	\$ 62,603
Due after ten years	100	-	(5)	95
	<u>62,457</u>	<u>295</u>	<u>(54)</u>	<u>62,698</u>
State agency and municipal obligations				
Due from one through five years	827	24	(3)	848
Due from five through ten years	8,045	189	(1)	8,233
Due after ten years	5,623	178	(119)	5,682
	<u>14,495</u>	<u>391</u>	<u>(123)</u>	<u>14,763</u>
Corporate bonds				
Due in less than one year	2,022	56	-	2,078
Due from one through five years	8,145	67	-	8,212
	<u>10,167</u>	<u>123</u>	<u>-</u>	<u>10,290</u>
Total available for sale securities	<u>\$ 87,119</u>	<u>\$ 809</u>	<u>\$ (177)</u>	<u>\$ 87,751</u>
Held to maturity securities:				
U.S. Government and agency obligations State agency, U.S. Territories and municipal obligations				
Due from one through five years	\$ 2,135	\$ -	\$ -	\$ 2,135
Due after ten years	13,575	-	-	13,575
	<u>15,710</u>	<u>-</u>	<u>-</u>	<u>15,710</u>
Corporate bonds				
Due from one through five years	1,000	-	(23)	977
Government-sponsored mortgage backed securities				
No contractual maturity	149	15	-	164
Total held to maturity securities	\$ 16,859	\$ 15	\$ (23)	\$ 16,851

The gross realized gains on the sale of investment securities totaled \$0 and \$165 thousand for the three and six months ended June 30, 2017, respectively. Total sales proceeds totaled \$0 and \$49.6 million for three and six months ended June 30, 2017, respectively. There were no gross realized losses on the sale of investment securities for the three and six months ended June 30, 2017. The gross realized gains on the sale of investment securities totaled \$98 thousand for the three and six months ended June 30, 2016. The gross realized losses on the sale of investment securities totaled \$6 thousand for the three and six months ended June 30, 2016. Total sales proceeds totaled \$3.8 million for the three and six months ended June 30, 2016.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)

At June 30, 2017 there were no securities pledged as collateral with the FHLB. At December 31, 2016, securities with approximate fair values of \$60.0 million were pledged as collateral with the FHLB.

The following table provides information regarding investment securities with unrealized losses, aggregated by investment category and length of time that individual securities had been in a continuous unrealized loss position at June 30, 2017 and December 31, 2016:

	Length of Time in Continuous Unrealized Loss Position						Total		
	Less Than 12 Months			12 Months or More					
	Fair Value	Unrealized Loss	Percent Decline from Amortized Cost	Fair Value	Unrealized Loss	Percent Decline from Amortized Cost	Fair Value	Unrealized Loss	Percent Decline from Amortized Cost
(In thousands)									
June 30, 2017									
U.S. Government and agency obligations	\$ 7,454	\$ (66)	0.88%	\$ -	\$ -	-	\$ 7,454	\$ (66)	0.88%
State agency and municipal obligations	891	(43)	4.60%	-	-	-	891	(43)	4.60%
Corporate bonds	-	-	-	987	(13)	1.25%	987	(13)	1.25%
Total investment securities	<u>\$ 8,345</u>	<u>\$ (109)</u>	<u>1.29%</u>	<u>\$ 987</u>	<u>\$ (13)</u>	<u>1.25%</u>	<u>\$ 9,332</u>	<u>\$ (122)</u>	<u>1.29%</u>
December 31, 2016									
U.S. Government and agency obligations	\$ 3,045	\$ (54)	1.74%	\$ -	\$ -	-	\$ 3,045	\$ (54)	1.74%
State agency and municipal obligations	2,756	(123)	4.29%	-	-	-	2,756	(123)	4.29%
Corporate bonds	978	(23)	2.25%	-	-	-	978	(23)	2.25%
Total investment securities	<u>\$ 6,779</u>	<u>\$ (200)</u>	<u>2.86%</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ 6,779</u>	<u>\$ (200)</u>	<u>2.86%</u>

There were eleven investment securities as of June 30, 2017 and December 31, 2016, in which the fair value of the security was less than the amortized cost of the security.

The U.S. Government and agency obligations owned are either direct obligations of the U.S. Government or guaranteed by the U.S. Government, therefore the contractual cash flows are guaranteed and as a result the unrealized losses in this portfolio are not considered other than temporarily impaired.

The Company continually monitors its state agency, municipal and corporate bond portfolios and at this time these portfolios have minimal default risk because state agency, municipal and corporate bonds are all rated above investment grade and as a result the unrealized losses in this portfolio are not considered other than temporarily impaired.

The Company has the intent and ability to retain its investment securities in an unrealized loss position at June 30, 2017 until the decline in value has recovered.

3. LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans acquired in connection with the Wilton acquisition in November 2013 and the Quinnipiac acquisition in October 2014 are referred to as “acquired” loans as a result of the manner in which they are accounted for. All other loans are referred to as “originated” loans. Accordingly, selected credit quality disclosures that follow are presented separately for the originated loan portfolio and the acquired loan portfolio.

The following table sets forth a summary of the loan portfolio at June 30, 2017 and December 31, 2016:

<i>(In thousands)</i>	June 30, 2017			December 31, 2016		
	Originated	Acquired	Total	Originated	Acquired	Total
Real estate loans:						
Residential	\$ 178,481	\$ 2,524	\$ 181,005	\$ 178,549	\$ 2,761	\$ 181,310
Commercial	864,550	38,530	903,080	802,156	43,166	845,322
Construction	117,239	109	117,348	107,329	112	107,441
Home equity	8,708	5,879	14,587	8,549	5,870	14,419
	<u>1,168,978</u>	<u>47,042</u>	<u>1,216,020</u>	<u>1,096,583</u>	<u>51,909</u>	<u>1,148,492</u>
Commercial business	253,207	16,104	269,311	198,456	17,458	215,914
Consumer	785	172	957	672	861	1,533
Total loans	<u>1,422,970</u>	<u>63,318</u>	<u>1,486,288</u>	<u>1,295,711</u>	<u>70,228</u>	<u>1,365,939</u>
Allowance for loan losses	(19,409)	(127)	(19,536)	(17,883)	(99)	(17,982)
Deferred loan origination fees, net	(3,521)	-	(3,521)	(4,071)	-	(4,071)
Unamortized loan premiums	9	-	9	9	-	9
Loans receivable, net	<u>\$ 1,400,049</u>	<u>\$ 63,191</u>	<u>\$ 1,463,240</u>	<u>\$ 1,273,766</u>	<u>\$ 70,129</u>	<u>\$ 1,343,895</u>

Lending activities are conducted principally in the New York metropolitan area, with the majority of our loans in Fairfield and New Haven Counties, Connecticut, and consist of residential and commercial real estate loans, commercial business loans and a variety of consumer loans. Loans may also be granted for the construction of residential homes and commercial properties. All residential and commercial mortgage loans are typically collateralized by first or second mortgages on real estate.

Certain acquired loans were determined to have evidence of credit deterioration at the acquisition date. Such loans are accounted for in accordance with ASC 310-30.

The following table summarizes activity in the accretable yields for the acquired loan portfolio that falls under the purview of ASC 310-30:

(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Balance at beginning of period	\$ 636	\$ 771	\$ 666	\$ 871
Accretion	(29)	(38)	(59)	(87)
Other (a)	-	-	-	(51)
Balance at end of period	<u>\$ 607</u>	<u>\$ 733</u>	<u>\$ 607</u>	<u>\$ 733</u>

a) Represents changes in cash flows expected to be collected due to loan sales or payoffs.

Risk management

The Company has established credit policies applicable to each type of lending activity in which it engages. The Company evaluates the creditworthiness of each customer and extends credit of up to 80% of the market value of the collateral, depending on the borrowers' creditworthiness and the type of collateral. The borrower's ability to service the debt is monitored on an ongoing basis. Real estate is the primary form of collateral. Other important forms of collateral are business assets, time deposits and marketable securities. While collateral provides assurance as a secondary source of repayment, the Company ordinarily requires the primary source of repayment for commercial loans, to be based on the borrower's ability to generate continuing cash flows. The Company's policy for residential lending allows that, generally, the amount of the loan may not exceed 80% of the original appraised value of the property. In certain situations, the amount may exceed 80% LTV either with private mortgage insurance being required for that portion of the residential loan in excess of 80% of the appraised value of the property or where secondary financing is provided by a housing authority program second mortgage, a community's low/moderate income housing program, or a religious or civic organization. Private mortgage insurance may be required for that portion of the residential first mortgage loan in excess of 80% of the appraised value of the property.

Credit quality of loans and the allowance for loan losses

Management segregates the loan portfolio into portfolio segments. The portfolio segments are segregated based on loan types and the underlying risk factors present in each loan type. Such risk factors are periodically reviewed by management and revised as deemed appropriate.

The Company's loan portfolio is segregated into the following portfolio segments:

Residential Real Estate: This portfolio segment consists of the origination of first mortgage loans secured by one-to-four family owner occupied residential properties for personal use located in our market area.

Commercial Real Estate: This portfolio segment includes loans secured by commercial real estate, non-owner occupied one-to-four family and multi-family dwellings for property owners and businesses. Loans secured by commercial real estate generally have larger loan balances and more credit risk than owner occupied one-to-four family mortgage loans.

Construction: This portfolio segment includes commercial construction loans for commercial development projects, including condominiums, apartment buildings, and single family subdivisions as well as office buildings, retail and other income producing properties and land loans, which are loans made with land as security. In addition, this portfolio includes residential construction loans to individuals to finance the construction of residential dwellings for personal use located in our market area. Construction and land development financing generally involves greater credit risk than long-term financing on improved, owner-occupied or leased real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the value of the property at completion of construction compared to the estimated cost (including interest) of construction and other assumptions. If the estimate of construction cost proves to be inaccurate, the Company may be required to advance additional funds beyond the amount originally committed in order to protect the value of the property. Moreover, if the estimated value of the completed project proves to be inaccurate, the borrower may hold a property with a value that is insufficient to assure full repayment through sale or refinance. Construction loans also expose the Company to the risks that improvements will not be completed on time in accordance with specifications and projected costs and that repayment will depend on the successful operation or sale of the properties, which may cause some borrowers to be unable to continue with debt service which exposes the Company to greater risk of non-payment and loss.

Home Equity: This portfolio segment primarily includes home equity loans and home equity lines of credit secured by owner occupied one-to-four family residential properties. Loans of this type are written at a combined maximum of 80% of the appraised value of the property and the Company requires a first or second lien position on the property. These loans can be affected by economic conditions and the values of the underlying properties.

Commercial Business: This portfolio segment includes commercial business loans secured by assignments of corporate assets and personal guarantees of the business owners. Commercial business loans generally have higher interest rates and shorter terms than other loans, but they also may involve higher average balances, increased difficulty of loan monitoring and a higher risk of default since their repayment generally depends on the successful operation of the borrower's business.

Consumer: This portfolio segment includes loans secured by savings or certificate accounts, or automobiles, as well as unsecured personal loans and overdraft lines of credit. This type of loan entails greater risk than residential mortgage loans, particularly in the case of loans that are unsecured or secured by assets that depreciate rapidly.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)

Allowance for loan losses

The following tables set forth the activity in the Company's allowance for loan losses for the three months ended June 30, 2017 and 2016, by portfolio segment:

	Residential Real Estate	Commercial Real Estate	Construction	Home Equity	Commercial Business	Consumer	Total
<i>(In thousands)</i>							
Three Months Ended June 30, 2017							
Originated							
Beginning balance	\$ 1,494	\$ 9,541	\$ 2,122	\$ 153	\$ 4,742	\$ 346	\$ 18,398
Charge-offs	-	-	-	-	-	(16)	(16)
Recoveries	146	-	-	-	-	-	146
Provisions	(175)	146	146	15	732	17	881
Ending balance	<u>\$ 1,465</u>	<u>\$ 9,687</u>	<u>\$ 2,268</u>	<u>\$ 168</u>	<u>\$ 5,474</u>	<u>\$ 347</u>	<u>\$ 19,409</u>
Acquired							
Beginning balance	\$ -	\$ 8	\$ -	\$ -	\$ 79	\$ 26	\$ 113
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provisions	-	-	-	-	11	3	14
Ending balance	<u>\$ -</u>	<u>\$ 8</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 90</u>	<u>\$ 29</u>	<u>\$ 127</u>
Total							
Beginning balance	\$ 1,494	\$ 9,549	\$ 2,122	\$ 153	\$ 4,821	\$ 372	\$ 18,511
Charge-offs	-	-	-	-	-	(16)	(16)
Recoveries	146	-	-	-	-	-	146
Provisions	(175)	146	146	15	743	20	895
Ending balance	<u>\$ 1,465</u>	<u>\$ 9,695</u>	<u>\$ 2,268</u>	<u>\$ 168</u>	<u>\$ 5,564</u>	<u>\$ 376</u>	<u>\$ 19,536</u>

BANKWELL FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)

	Residential Real Estate	Commercial Real Estate	Construction	Home Equity	Commercial Business	Consumer	Total
<i>(In thousands)</i>							
Three Months Ended June 30, 2016							
Originated							
Beginning balance	\$ 1,503	\$ 8,434	\$ 1,583	\$ 178	\$ 3,086	\$ 3	\$ 14,787
Charge-offs	-	-	-	-	-	(8)	(8)
Recoveries	-	-	-	-	-	1	1
Provisions	(19)	191	337	1	706	43	1,259
Ending balance	<u>\$ 1,484</u>	<u>\$ 8,625</u>	<u>\$ 1,920</u>	<u>\$ 179</u>	<u>\$ 3,792</u>	<u>\$ 39</u>	<u>\$ 16,039</u>
Acquired							
Beginning balance	\$ -	\$ 13	\$ -	\$ -	\$ 6	\$ 4	\$ 23
Charge-offs	-	-	-	-	-	(4)	(4)
Recoveries	-	-	-	-	-	-	-
Provisions	-	10	-	11	18	3	42
Ending balance	<u>\$ -</u>	<u>\$ 23</u>	<u>\$ -</u>	<u>\$ 11</u>	<u>\$ 24</u>	<u>\$ 3</u>	<u>\$ 61</u>
Total							
Beginning balance	\$ 1,503	\$ 8,447	\$ 1,583	\$ 178	\$ 3,092	\$ 7	\$ 14,810
Charge-offs	-	-	-	-	-	(12)	(12)
Recoveries	-	-	-	-	-	1	1
Provisions	(19)	201	337	12	724	46	1,301
Ending balance	<u>\$ 1,484</u>	<u>\$ 8,648</u>	<u>\$ 1,920</u>	<u>\$ 190</u>	<u>\$ 3,816</u>	<u>\$ 42</u>	<u>\$ 16,100</u>

BANKWELL FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)

	Residential Real Estate	Commercial Real Estate	Construction	Home Equity	Commercial Business	Consumer	Total
<i>(In thousands)</i>							
Six Months Ended June 30, 2017							
Originated							
Beginning balance	\$ 1,498	\$ 9,534	\$ 2,105	\$ 156	\$ 4,240	\$ 350	\$ 17,883
Charge-offs	-	-	-	-	-	(16)	(16)
Recoveries	146	-	-	-	-	1	147
Provisions	(179)	153	163	12	1,234	12	1,395
Ending balance	<u>\$ 1,465</u>	<u>\$ 9,687</u>	<u>\$ 2,268</u>	<u>\$ 168</u>	<u>\$ 5,474</u>	<u>\$ 347</u>	<u>\$ 19,409</u>
Acquired							
Beginning balance	\$ -	\$ 29	\$ -	\$ -	\$ 43	\$ 27	\$ 99
Charge-offs	-	-	-	-	-	(15)	(15)
Recoveries	-	-	-	-	-	-	-
Provisions	-	(21)	-	-	47	17	43
Ending balance	<u>\$ -</u>	<u>\$ 8</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 90</u>	<u>\$ 29</u>	<u>\$ 127</u>
Total							
Beginning balance	\$ 1,498	\$ 9,563	\$ 2,105	\$ 156	\$ 4,283	\$ 377	\$ 17,982
Charge-offs	-	-	-	-	-	(31)	(31)
Recoveries	146	-	-	-	-	1	147
Provisions	(179)	132	163	12	1,281	29	1,438
Ending balance	<u>\$ 1,465</u>	<u>\$ 9,695</u>	<u>\$ 2,268</u>	<u>\$ 168</u>	<u>\$ 5,564</u>	<u>\$ 376</u>	<u>\$ 19,536</u>

BANKWELL FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)

	Residential Real Estate	Commercial Real Estate	Construction	Home Equity	Commercial Business	Consumer	Total
<i>(In thousands)</i>							
Six Months Ended June 30, 2016							
Originated							
Beginning balance	\$ 1,444	\$ 7,693	\$ 1,504	\$ 174	\$ 3,310	\$ 3	\$ 14,128
Charge-offs	-	-	-	-	-	(9)	(9)
Recoveries	-	-	-	-	-	6	6
Provisions	40	932	416	5	482	39	1,914
Ending balance	<u>\$ 1,484</u>	<u>\$ 8,625</u>	<u>\$ 1,920</u>	<u>\$ 179</u>	<u>\$ 3,792</u>	<u>\$ 39</u>	<u>\$ 16,039</u>
Acquired							
Beginning balance	\$ -	\$ 12	\$ -	\$ -	\$ 24	\$ 5	\$ 41
Charge-offs	-	-	(7)	-	-	(6)	(13)
Recoveries	-	-	-	-	-	-	-
Provisions	-	11	7	11	-	4	33
Ending balance	<u>\$ -</u>	<u>\$ 23</u>	<u>\$ -</u>	<u>\$ 11</u>	<u>\$ 24</u>	<u>\$ 3</u>	<u>\$ 61</u>
Total							
Beginning balance	\$ 1,444	\$ 7,705	\$ 1,504	\$ 174	\$ 3,334	\$ 8	\$ 14,169
Charge-offs	-	-	(7)	-	-	(15)	(22)
Recoveries	-	-	-	-	-	6	6
Provisions	40	943	423	16	482	43	1,947
Ending balance	<u>\$ 1,484</u>	<u>\$ 8,648</u>	<u>\$ 1,920</u>	<u>\$ 190</u>	<u>\$ 3,816</u>	<u>\$ 42</u>	<u>\$ 16,100</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)

The following tables are a summary, by portfolio segment and impairment methodology, of the allowance for loan losses and related portfolio balances at June 30, 2017 and December 31, 2016:

	Originated Loans		Acquired Loans		Total	
	Portfolio	Allowance	Portfolio	Allowance	Portfolio	Allowance
<i>(In thousands)</i>						
June 30, 2017						
Loans individually evaluated for impairment:						
Residential real estate	\$ 2,009	\$ -	\$ -	\$ -	\$ 2,009	\$ -
Commercial real estate	1,007	3	1,173	7	2,180	10
Home equity	249	-	450	-	699	-
Commercial business	3,790	94	612	88	4,402	182
Consumer	341	341	29	29	370	370
Subtotal	7,396	438	2,264	124	9,660	562
Loans collectively evaluated for impairment:						
Residential real estate	176,472	1,465	2,524	-	178,996	1,465
Commercial real estate	863,543	9,684	37,357	1	900,900	9,685
Construction	117,239	2,268	109	-	117,348	2,268
Home equity	8,459	168	5,429	-	13,888	168
Commercial business	249,417	5,380	15,492	2	264,909	5,382
Consumer	444	6	143	-	587	6
Subtotal	1,415,574	18,971	61,054	3	1,476,628	18,974
Total	\$ 1,422,970	\$ 19,409	\$ 63,318	\$ 127	\$ 1,486,288	\$ 19,536
	Originated Loans		Acquired Loans		Total	
	Portfolio	Allowance	Portfolio	Allowance	Portfolio	Allowance
<i>(In thousands)</i>						
December 31, 2016						
Loans individually evaluated for impairment:						
Residential real estate	\$ 969	\$ -	\$ -	\$ -	\$ 969	\$ -
Commercial real estate	774	1	144	7	918	8
Home equity	259	-	453	-	712	-
Commercial business	920	5	962	37	1,882	42
Consumer	341	341	27	27	368	368
Subtotal	3,263	347	1,586	71	4,849	418
Loans collectively evaluated for impairment:						
Residential real estate	177,580	1,498	2,761	-	180,341	1,498
Commercial real estate	801,382	9,533	43,022	22	844,404	9,555
Construction	107,329	2,105	112	-	107,441	2,105
Home equity	8,290	156	5,417	-	13,707	156
Commercial business	197,536	4,235	16,496	6	214,032	4,241
Consumer	331	9	834	-	1,165	9
Subtotal	1,292,448	17,536	68,642	28	1,361,090	17,564
Total	\$ 1,295,711	\$ 17,883	\$ 70,228	\$ 99	\$ 1,365,939	\$ 17,982

Credit quality indicators

The Company's policies provide for the classification of loans into the following categories: pass, special mention, substandard, doubtful and loss. Consistent with regulatory guidelines, loans that are considered to be of lesser quality are classified as substandard, doubtful, or loss assets. A loan is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard loans include those loans characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Loans classified as doubtful have all of the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Loans classified as loss are those considered uncollectible and of such little value that their continuance as loans is not warranted. Loans that do not expose the Company to risk sufficient to warrant classification in one of the aforementioned categories, but which possess potential weaknesses that deserve close attention, are designated as special mention.

Loans that are considered to be impaired are analyzed to determine whether a loss is possible and if so, a calculation is performed to determine the possible loss amount. If it is determined that the loss amount is \$0, no reserve is held against the asset. If a loss is calculated, then a specific reserve for that asset is allocated.

The following tables are a summary of the loan portfolio quality indicators by portfolio segment at June 30, 2017 and December 31, 2016:

	Commercial Credit Quality Indicators							
	At June 30, 2017				At December 31, 2016			
	Commercial Real Estate	Construction	Commercial Business	Total	Commercial Real Estate	Construction	Commercial Business	Total
	<i>(In thousands)</i>							
Originated loans:								
Pass	\$ 849,166	\$ 117,239	\$ 248,423	\$ 1,214,828	\$ 797,249	\$ 107,329	\$ 196,436	\$ 1,101,014
Special mention	14,377	-	2,025	16,402	4,605	-	115	4,720
Substandard	1,007	-	2,759	3,766	302	-	1,905	2,207
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total originated loans	864,550	117,239	253,207	1,234,996	802,156	107,329	198,456	1,107,941
Acquired loans:								
Pass	37,246	109	15,426	52,781	41,582	112	16,836	58,530
Special mention	111	-	303	414	1,584	-	86	1,670
Substandard	1,173	-	375	1,548	-	-	536	536
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total acquired loans	38,530	109	16,104	54,743	43,166	112	17,458	60,736
Total loans:								
Pass	886,412	117,348	263,849	1,267,609	838,831	107,441	213,272	1,159,544
Special mention	14,488	-	2,328	16,816	6,189	-	201	6,390
Substandard	2,180	-	3,134	5,314	302	-	2,441	2,743
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total loans	<u>\$ 903,080</u>	<u>\$ 117,348</u>	<u>\$ 269,311</u>	<u>\$ 1,289,739</u>	<u>\$ 845,322</u>	<u>\$ 107,441</u>	<u>\$ 215,914</u>	<u>\$ 1,168,677</u>

Residential and Consumer Credit Quality Indicators								
	At June 30, 2017				At December 31, 2016			
	Residential Real Estate	Home Equity	Consumer	Total	Residential Real Estate	Home Equity	Consumer	Total
<i>(In thousands)</i>								
Originated loans:								
Pass	\$ 176,472	\$ 8,459	\$ 444	\$ 185,375	\$ 176,961	\$ 8,291	\$ 331	\$ 185,583
Special mention	1,040	64	-	1,104	147	69	-	216
Substandard	969	185	-	1,154	1,441	189	-	1,630
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	341	341	-	-	341	341
Total originated loans	178,481	8,708	785	187,974	178,549	8,549	672	187,770
Acquired loans:								
Pass	2,524	5,429	29	7,982	2,229	5,417	835	8,481
Special mention	-	-	-	-	49	-	-	49
Substandard	-	450	5	455	483	453	2	938
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	138	138	-	-	24	24
Total acquired loans	2,524	5,879	172	8,575	2,761	5,870	861	9,492
Total loans:								
Pass	178,996	13,888	473	193,357	179,190	13,708	1,166	194,064
Special mention	1,040	64	-	1,104	196	69	-	265
Substandard	969	635	5	1,609	1,924	642	2	2,568
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	479	479	-	-	365	365
Total loans	\$ 181,005	\$ 14,587	\$ 957	\$ 196,549	\$ 181,310	\$ 14,419	\$ 1,533	\$ 197,262

Loan portfolio aging analysis

When a loan is 15 days past due, the Company sends the borrower a late notice. The Company also contacts the borrower by phone if the delinquency is not corrected promptly after the notice has been sent.

When the loan is 30 days past due, the Company mails the borrower a letter reminding the borrower of the delinquency, and attempts to contact the borrower personally to determine the reason for the delinquency and ensure the borrower understands the terms of the loan. If necessary, subsequent delinquency notices are issued and the account will be monitored on a regular basis thereafter. By the 90th day of delinquency, the Company will send the borrower a final demand for payment or may take other appropriate legal action. A summary report of all loans 30 days or more past due is provided to the board of directors of the Company each month. Loans greater than 90 days past due are generally put on nonaccrual status. A nonaccrual loan is restored to accrual status when it is no longer delinquent and collectability of interest and principal is no longer in doubt. A loan is considered to be no longer delinquent when timely payments are made for a period of at least six months (one year for loans providing for quarterly or semi-annual payments) by the borrower in accordance with the contractual terms.

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The following tables set forth certain information with respect to our loan portfolio delinquencies by portfolio segment and amount as of June 30, 2017 and December 31, 2016:

As of June 30, 2017						
	31-60 Days Past Due	61-90 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans
<i>(In thousands)</i>						
Originated Loans						
Real estate loans:						
Residential real estate	\$ -	\$ -	\$ 969	\$ 969	\$ 177,512	\$ 178,481
Commercial real estate	190	147	-	337	864,213	864,550
Construction	-	-	-	-	117,239	117,239
Home equity	173	-	-	173	8,535	8,708
Commercial business	350	156	-	506	252,701	253,207
Consumer	-	-	-	-	785	785
Total originated loans	713	303	969	1,985	1,420,985	1,422,970
Acquired Loans						
Real estate loans:						
Residential real estate	-	-	-	-	2,524	2,524
Commercial real estate	-	159	478	637	37,893	38,530
Construction	-	-	-	-	109	109
Home equity	-	95	355	450	5,429	5,879
Commercial business	57	96	180	333	15,771	16,104
Consumer	-	-	4	4	168	172
Total acquired loans	57	350	1,017	1,424	61,894	63,318
Total loans	\$ 770	\$ 653	\$ 1,986	\$ 3,409	\$ 1,482,879	\$ 1,486,288

		As of December 31, 2016				
	31-60 Days Past Due	61-90 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans
<i>(In thousands)</i>						
Originated Loans						
Real estate loans:						
Residential real estate	\$ -	\$ -	\$ 969	\$ 969	\$ 177,580	\$ 178,549
Commercial real estate	147	1,848	302	2,297	799,859	802,156
Construction	-	-	-	-	107,329	107,329
Home equity	-	173	-	173	8,376	8,549
Commercial business	-	-	378	378	198,078	198,456
Consumer	-	-	-	-	672	672
Total originated loans	<u>147</u>	<u>2,021</u>	<u>1,649</u>	<u>3,817</u>	<u>1,291,894</u>	<u>1,295,711</u>
Acquired Loans						
Real estate loans:						
Residential real estate	-	-	-	-	2,761	2,761
Commercial real estate	866	722	143	1,731	41,435	43,166
Construction	-	-	-	-	112	112
Home equity	-	-	453	453	5,417	5,870
Commercial business	99	249	-	348	17,110	17,458
Consumer	6	-	-	6	855	861
Total acquired loans	<u>971</u>	<u>971</u>	<u>596</u>	<u>2,538</u>	<u>67,690</u>	<u>70,228</u>
Total loans	<u>\$ 1,118</u>	<u>\$ 2,992</u>	<u>\$ 2,245</u>	<u>\$ 6,355</u>	<u>\$ 1,359,584</u>	<u>\$ 1,365,939</u>

There were no loans delinquent greater than 90 days and still accruing as of June 30, 2017 and December 31, 2016.

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Loans on nonaccrual status

The following is a summary of nonaccrual loans by portfolio segment as of June 30, 2017 and December 31, 2016:

	June 30, 2017	December 31, 2016
	<i>(In thousands)</i>	
Residential real estate	\$ 969	\$ 969
Commercial real estate	1,785	446
Home equity	635	643
Commercial business	1,568	538
Consumer	346	341
Total	<u>\$ 5,303</u>	<u>\$ 2,937</u>

At June 30, 2017 and December 31, 2016, there were no commitments to lend additional funds to any borrower on nonaccrual status.

Impaired loans

An impaired loan generally is one for which it is probable, based on current information, the Company will not collect all the amounts due under the contractual terms of the loan. Loans are individually evaluated for impairment. When the Company classifies a problem loan as impaired, it provides a specific valuation allowance for that portion of the asset that is deemed uncollectible.

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The following table summarizes impaired loans by portfolio segment as of June 30, 2017 and December 31, 2016:

	Carrying Amount		Unpaid Principal Balance		Associated Allowance	
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
<i>(In thousands)</i>						
Originated						
Impaired loans without a valuation allowance:						
Residential real estate	\$ 2,009	\$ 969	\$ 2,009	\$ 969	\$ -	\$ -
Commercial real estate	673	651	682	651	-	-
Home equity	249	259	264	269	-	-
Commercial business	2,400	551	2,400	584	-	-
Total impaired loans without a valuation allowance	5,331	2,430	5,355	2,473	-	-
Impaired loans with a valuation allowance:						
Commercial real estate	334	123	334	123	3	1
Commercial business	1,390	369	1,390	369	94	5
Consumer	341	341	341	341	341	341
Total impaired loans with a valuation allowance	2,065	833	2,065	833	438	347
Total originated impaired loans	\$ 7,396	\$ 3,263	\$ 7,420	\$ 3,306	\$ 438	\$ 347
Acquired						
Impaired loans without a valuation allowance:						
Commercial real estate	\$ 1,029	\$ -	\$ 1,062	\$ -	\$ -	\$ -
Home equity	450	453	462	462	-	-
Commercial business	412	572	438	593	-	-
Total impaired loans without a valuation allowance	1,891	1,025	1,962	1,055	-	-
Impaired loans with a valuation allowance:						
Commercial Real Estate	144	144	144	144	7	7
Commercial business	200	390	203	390	88	37
Consumer	29	27	29	27	29	27
Total impaired loans with a valuation allowance	373	561	376	561	124	71
Total acquired impaired loans	\$ 2,264	\$ 1,586	\$ 2,338	\$ 1,616	\$ 124	\$ 71
Total	\$ 9,660	\$ 4,849	\$ 9,758	\$ 4,922	\$ 562	\$ 418

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The following table summarizes the average recorded investment balance of impaired loans and interest income recognized on impaired loans by portfolio segment for the three and six months ended June 30, 2017 and June 30, 2016:

	Average Recorded Investment For the Three Months Ended		Interest Income Recognized For the Three Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
<i>(In thousands)</i>				
Originated				
Impaired loans without a valuation allowance:				
Residential real estate	\$ 2,009	\$ 969	\$ -	\$ -
Commercial real estate	679	3,220	5	-
Home equity	251	269	-	1
Commercial business	2,402	264	4	20
Total impaired loans without a valuation allowance	5,341	4,722	9	21
Impaired loans with a valuation allowance:				
Commercial real estate	334	-	-	-
Commercial business	1,398	532	4	6
Consumer	341	-	-	-
Total impaired loans with a valuation allowance	2,073	532	4	6
Total originated impaired loans	\$ 7,414	\$ 5,254	\$ 13	\$ 27
Acquired				
Impaired loans without a valuation allowance:				
Commercial real estate	\$ 1,041	\$ 441	\$ -	\$ -
Home equity	450	295	-	1
Commercial business	422	718	3	9
Total impaired loans without a valuation allowance	1,913	1,454	3	10
Impaired loans with a valuation allowance:				
Commercial real estate	144	144	-	-
Home equity	-	162	-	2
Commercial business	201	728	-	11
Consumer	30	3	-	-
Total impaired loans with a valuation allowance	375	1,037	-	13
Total acquired impaired loans	\$ 2,288	\$ 2,491	\$ 3	\$ 23
Total	\$ 9,702	\$ 7,745	\$ 16	\$ 50

	Average Recorded Investment For the Six Months Ended		Interest Income Recognized For the Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
<i>(In thousands)</i>				
Originated				
Impaired loans without a valuation allowance:				
Residential real estate	\$ 2,009	\$ 969	\$ -	\$ -
Commercial real estate	695	3,220	9	26
Construction	-	-	-	-
Home equity	254	273	-	1
Commercial business	2,407	259	9	21
Total impaired loans without a valuation allowance	5,365	4,721	18	48
Impaired loans with a valuation allowance:				
Commercial real estate	336	-	4	-
Home Equity	-	-	-	-
Commercial business	1,415	525	9	12
Consumer	341	-	-	-
Total impaired loans with a valuation allowance	2,092	525	13	12
Total originated impaired loans	\$ 7,457	\$ 5,246	\$ 31	\$ 60
Acquired				
Impaired loans without a valuation allowance:				
Commercial real estate	\$ 1,062	\$ 450	\$ 10	\$ -
Home equity	454	296	-	1
Commercial business	443	728	6	17
Total impaired loans without a valuation allowance	1,959	1,474	16	18
Impaired loans with a valuation allowance:				
Commercial real estate	144	\$ 144	-	-
Home equity	-	162	-	2
Commercial business	204	743	-	18
Consumer	30	3	-	-
Total impaired loans with a valuation allowance	378	1,052	-	20
Total acquired impaired loans	\$ 2,337	\$ 2,526	\$ 16	\$ 38
Total	\$ 9,794	\$ 7,772	\$ 47	\$ 98

Troubled debt restructurings (TDRs)

Modifications to a loan are considered to be a troubled debt restructuring when one or both of the following conditions is met: 1) the borrower is experiencing financial difficulties and/or 2) the modification constitutes a concession that is not in line with market rates and/or terms. Modified terms are dependent upon the financial position and needs of the individual borrower. Troubled debt restructurings are classified as impaired loans.

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If a performing loan is restructured into a TDR it remains in performing status. If a nonperforming loan is restructured into a TDR, it continues to be carried in nonaccrual status. Nonaccrual classification may be removed if the borrower demonstrates compliance with the modified terms for a minimum of six months.

The recorded investment in TDRs was \$2.7 million and \$1.4 million at June 30, 2017 and December 31, 2016, respectively.

The following tables present loans whose terms were modified as TDRs during the periods presented:

<i>(Dollars in thousands)</i>	Number of Loans		Outstanding Recorded Investment			
			Pre-Modification		Post-Modification	
	2017	2016	2017	2016	2017	2016
Three Months Ended June 30,						
Residential real estate	1	-	\$ 1,040	\$ -	\$ 1,040	\$ -
Commercial business	2	2	345	259	345	259
Total	<u>3</u>	<u>2</u>	<u>\$ 1,385</u>	<u>\$ 259</u>	<u>\$ 1,385</u>	<u>\$ 259</u>

<i>(Dollars in thousands)</i>	Number of Loans		Outstanding Recorded Investment			
			Pre-Modification		Post-Modification	
	2017	2016	2017	2016	2017	2016
Six Months Ended June 30,						
Residential real estate	1	-	\$ 1,040	\$ -	\$ 1,040	\$ -
Commercial business	2	2	345	259	345	259
Total	<u>3</u>	<u>2</u>	<u>\$ 1,385</u>	<u>\$ 259</u>	<u>\$ 1,385</u>	<u>\$ 259</u>

All TDRs at June 30, 2017 and December 31, 2016 were performing in compliance with their modified terms, except for two non-accrual loans totaling \$391 thousand at June 30, 2017 and one non-accrual loan totaling \$66 thousand at December 31, 2016.

The following table provides information on how loans were modified as a TDR during the three and six months ended June 30, 2017 and 2016.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	<i>(In thousands)</i>		<i>(In thousands)</i>	
Payment concession	\$ 104	\$ -	\$ 104	\$ -
Maturity concession	\$ 241	\$ 259	\$ 241	\$ 259
Rate and payment concession	1,040	-	1,040	-
Total	<u>\$ 1,385</u>	<u>\$ 259</u>	<u>\$ 1,385</u>	<u>\$ 259</u>

There were no loans modified in a troubled debt restructuring, for which there was a payment default during the three and six months ended June 30, 2017 and 2016, respectively.

4. SHAREHOLDERS' EQUITY

Common stock

On May 15, 2014, the Company priced 2,702,703 common shares in its initial public offering (“IPO”) at \$18.00 per share and Bankwell common shares began trading on the Nasdaq Stock Market. The Company issued a total of 2,702,703 common shares in its IPO, which closed on May 20, 2014. The net proceeds from the IPO were approximately \$44.7 million, after deducting the underwriting discount of approximately \$2.5 million and approximately \$1.3 million of expenses.

Prior to the public offering, the Company issued shares in various offerings.

Warrants

As a result of the acquisition of Quinnipiac on October 1, 2014 the Company issued 68,600 warrants to former Quinnipiac warrant holders in accordance with the merger agreement. Each warrant was automatically converted into a warrant to purchase 0.56 shares of the Company’s common stock for an exercise price of \$17.86. A total of 22,400 warrants have been exercised as of June 30, 2017. The warrants expire on March 6, 2018.

Dividends

The Company’s shareholders are entitled to dividends when and if declared by the board of directors, out of funds legally available. The ability of the Company to pay dividends depends, in part, on the ability of the Bank to pay dividends to the Company. In accordance with Connecticut statutes, regulatory approval is required to pay dividends in excess of the Bank’s profits retained in the current year plus retained profits from the previous two years. The Bank is also prohibited from paying dividends that would reduce its capital ratios below minimum regulatory requirements.

The Company did not repurchase any of its common stock during 2017 or 2016.

5. COMPREHENSIVE INCOME

Comprehensive income represents the sum of net income and items of other comprehensive income or loss, including net unrealized gains or losses on securities available for sale and net unrealized gains or losses on derivatives accounted for as cash flow hedges. The Company’s total comprehensive income or loss for the three and six months ended June 30, 2017 and 2016 is reported in the Consolidated Statements of Comprehensive Income.

The following tables present the changes in accumulated other comprehensive income (loss) by component, net of tax for the three and six months ended June 30, 2017 and 2016:

	Net Unrealized Gain (Loss) on Available for Sale Securities	Net Unrealized Gain (Loss) on Interest Rate Swap	Total
	<i>(In thousands)</i>		
Balance at March 31, 2017	\$ 406	\$ 623	\$ 1,029
Other comprehensive income before reclassifications, net of tax	190	(197)	(7)
Amounts reclassified from accumulated other comprehensive income	-	-	-
Net other comprehensive (loss) income	190	(197)	(7)
Balance at June 30, 2017	<u>\$ 596</u>	<u>\$ 426</u>	<u>\$ 1,022</u>

	Net Unrealized Gain (Loss) on Available for Sale Securities	Net Unrealized Gain (Loss) on Interest Rate Swap	Total
	<i>(In thousands)</i>		
Balance at March 31, 2016	\$ 1,071	\$ (1,093)	\$ (22)
Other comprehensive income (loss) before reclassifications, net of tax	248	(418)	(170)
Amounts reclassified from accumulated other comprehensive income	(92)	-	(92)
Net other comprehensive income (loss)	156	(418)	(262)
Balance at June 30, 2016	<u>\$ 1,227</u>	<u>\$ (1,511)</u>	<u>\$ (284)</u>

	Net Unrealized Gain (Loss) on Available for Sale Securities	Net Unrealized Gain (Loss) on Interest Rate Swap	Total
	<i>(In thousands)</i>		
Balance at December 31, 2016	\$ 409	\$ 481	\$ 890
Other comprehensive income before reclassifications, net of tax	352	(55)	297
Amounts reclassified from accumulated other comprehensive income	(165)	-	(165)
Net other comprehensive (loss) income	187	(55)	132
Balance at June 30, 2017	<u>\$ 596</u>	<u>\$ 426</u>	<u>\$ 1,022</u>

	Net Unrealized Gain (Loss) on Available for Sale Securities	Net Unrealized Gain (Loss) on Interest Rate Swap	Total
	<i>(In thousands)</i>		
Balance at December 31, 2015	\$ 405	\$ (178)	\$ 227
Other comprehensive income (loss) before reclassifications, net of tax	914	(1,333)	(419)
Amounts reclassified from accumulated other comprehensive income	(92)	-	(92)
Net other comprehensive income (loss)	822	(1,333)	(511)
Balance at June 30, 2016	<u>\$ 1,227</u>	<u>\$ (1,511)</u>	<u>\$ (284)</u>

6. EARNINGS PER SHARE

Unvested restricted stock awards that contain non-forfeitable rights to dividends, are participating securities, and are included in the computation of EPS pursuant to the two-class method. The two-class method is an earnings allocation formula that determines EPS for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. The Company's unvested restricted stock awards qualify as participating securities.

Net income is allocated between the common stock and participating securities pursuant to the two-class method. Basic EPS is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period, excluding participating unvested restricted stock awards.

Diluted EPS is computed in a similar manner, except that the denominator includes the number of additional common shares that would have been outstanding if potentially dilutive common shares were issued using the treasury stock method.

The following is a reconciliation of earnings available to common shareholders and basic weighted average common shares outstanding to diluted weighted average common shares outstanding, reflecting the application of the two-class method:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	<i>(In thousands, except per share data)</i>		<i>(In thousands, except per share data)</i>	
Net income	\$ 3,769	\$ 2,896	\$ 7,471	\$ 5,887
Dividends to participating securities ⁽¹⁾	(7)	(6)	(14)	(11)
Undistributed earnings allocated to participating securities ⁽¹⁾	(44)	(49)	(86)	(99)
Net income for earnings per share calculation	<u>\$ 3,718</u>	<u>\$ 2,841</u>	<u>\$ 7,371</u>	<u>\$ 5,777</u>
Weighted average shares outstanding, basic	7,551	7,388	7,538	7,384
Effect of dilutive equity-based awards ⁽²⁾	<u>95</u>	<u>80</u>	<u>100</u>	<u>62</u>
Weighted average shares outstanding, diluted	<u>7,646</u>	<u>7,468</u>	<u>7,638</u>	<u>7,446</u>
Net earnings per common share:				
Basic earnings per common share	\$ 0.49	\$ 0.38	\$ 0.98	\$ 0.78
Diluted earnings per common share	0.49	0.38	0.97	0.78

(1) Represents dividends paid and undistributed earnings allocated to unvested stock-based awards that contain non-forfeitable rights to dividends.

(2) Represents the effect of the assumed exercise of stock options and warrants and the vesting of restricted shares, as applicable, utilizing the treasury stock method.

7. REGULATORY MATTERS

The Federal Reserve, the FDIC and the other federal and state bank regulatory agencies establish regulatory capital guidelines for U.S. banking organizations.

As of January 1, 2015, the Company and the Bank became subject to new capital rules set forth by the Federal Reserve, the FDIC and the other federal and state bank regulatory agencies. The capital rules revise the banking agencies' leverage and risk-based capital requirements and the method for calculating risk weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act (the Basel III Capital Rules).

The Basel III Capital Rules establish a minimum common equity Tier 1 capital requirement of 4.5% of risk-weighted assets; set the minimum leverage ratio at 4% of total assets; increased the minimum Tier 1 capital to risk-weighted assets requirement from 4% to 6%; and retained the minimum total capital to risk weighted assets requirement at 8.0%. A "well-capitalized" institution must generally maintain capital ratios 100-200 basis points higher than the minimum guidelines.

The Basel III Capital Rules also change the risk weights assigned to certain assets. The Basel III Capital Rules assigned a higher risk weight (150%) to loans that are more than 90 days past due or are on nonaccrual status and to certain commercial real estate facilities that finance the acquisition, development or construction of real property. The Basel III Capital Rules also alter the risk weighting for other assets, including marketable equity securities that are risk weighted generally at 300%. The Basel III Capital Rules require certain components of accumulated other comprehensive income (loss) to be included for purposes of calculating regulatory capital requirements unless a one-time opt-out is exercised. The Bank did exercise its opt-out option and will exclude the unrealized gain (loss) on investment securities component of accumulated other comprehensive income (loss) from regulatory capital.

BANKWELL FINANCIAL GROUP, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)**

The Basel III Capital Rules limit a banking organization's capital distributions and certain discretionary bonus payments to executive officers if the banking organization does not hold a "capital conservation buffer" consisting of 2.5% of regulatory risk based capital ratios in addition to the amount necessary to meet its minimum risk-based capital requirements. The required minimum conservation buffer began to be phased in incrementally, starting at 0.625% on January 1, 2016, increased to 1.25% on January 1, 2017, and will continue to increase to 1.875% on January 1, 2018 and 2.5% on January 1, 2019.

Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements.

Management believes, as of June 30, 2017, the Bank and Company meet all capital adequacy requirements to which they are subject and satisfies the criteria for a "well capitalized" institution. There are no conditions or events since then that management believes have changed this conclusion.

The capital amounts and ratios for the Bank and the Company at June 30, 2017 and December 31, 2016 were as follows:

<i>(Dollars in thousands)</i>	Actual Capital		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Bankwell Bank						
<u>June 30, 2017</u>						
Common Equity Tier 1 Capital to Risk-Weighted Assets	\$ 166,639	10.91%	\$ 68,749	4.50%	\$ 99,304	6.50%
Total Capital to Risk-Weighted Assets	185,723	12.16%	122,220	8.00%	152,775	10.00%
Tier I Capital to Risk-Weighted Assets	166,639	10.91%	91,665	6.00%	122,220	8.00%
Tier I Capital to Average Assets	166,639	9.75%	68,372	4.00%	85,465	5.00%
Bankwell Financial Group, Inc.						
<u>June 30, 2017</u>						
Common Equity Tier 1 Capital to Risk-Weighted Assets	\$ 148,983	9.73%	\$ 68,905	4.50%	N/A	N/A
Total Capital to Risk-Weighted Assets	193,144	12.61%	122,498	8.00%	N/A	N/A
Tier I Capital to Risk-Weighted Assets	148,983	9.73%	91,874	6.00%	N/A	N/A
Tier I Capital to Average Assets	148,983	8.49%	70,230	4.00%	N/A	N/A

BANKWELL FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)

<i>(Dollars in thousands)</i>	Actual Capital		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Bankwell Bank						
<u>December 31, 2016</u>						
Common Equity Tier 1 Capital to Risk-Weighted Assets	\$ 157,604	11.59%	\$ 61,168	4.50%	\$ 88,353	6.50%
Total Capital to Risk-Weighted Assets	174,610	12.85%	108,742	8.00%	135,928	10.00%
Tier I Capital to Risk-Weighted Assets	157,604	11.59%	81,557	6.00%	108,742	8.00%
Tier I Capital to Average Assets	157,604	10.10%	62,428	4.00%	78,035	5.00%
Bankwell Financial Group, Inc.						
<u>December 31, 2016</u>						
Common Equity Tier 1 Capital to Risk-Weighted Assets	\$ 141,338	10.39%	\$ 61,231	4.50%	N/A	N/A
Total Capital to Risk-Weighted Assets	184,371	13.55%	108,855	8.00%	N/A	N/A
Tier I Capital to Risk-Weighted Assets	141,338	10.39%	81,641	6.00%	N/A	N/A
Tier I Capital to Average Assets	141,338	9.06%	62,415	4.00%	N/A	N/A

Restrictions on dividends

The ability of the Company to pay dividends depends, in part, on the ability of the Bank to pay dividends to the Company. In accordance with Connecticut statutes, regulatory approval is required to pay dividends in excess of the Bank's profits retained in the current year plus retained profits from the previous two years. The Bank is also prohibited from paying dividends that would reduce its capital ratios below minimum regulatory requirements.

8. STOCK-BASED COMPENSATION

Equity award plans

The Company has five equity award plans, which are collectively referred to as the "Plan". The current plan under which any future issuances of equity awards will be made is the 2012 BNC Financial Group, Inc. Stock Plan, or the "2012 Plan," amended on June 26, 2013. All equity awards made under the 2012 Plan are made by means of an award agreement, which contains the specific terms and conditions of the grant. To date, all equity awards have been in the form of share options or restricted stock. At June 30, 2017, there were 473,809 shares reserved for future issuance under the 2012 Plan.

Stock Options: The Company accounts for stock options based on the fair value at the date of grant and records option related expense over the vesting period of such awards on a straight line basis. All stock options have been fully expensed as of December 31, 2016.

There were no options granted during the six months ended June 30, 2017.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)

A summary of the status of outstanding share options as of and for the six months ended June 30, 2017 is presented below:

	Six Months Ended June 30, 2017	
	Number of Shares	Weighted Average Exercise Price
Options outstanding at beginning of period	120,988	\$ 18.58
Exercised	(28,511)	18.08
Forfeited	(200)	15.00
Options outstanding at end of period	<u>92,277</u>	18.74
Options exercisable at end of period	<u>92,277</u>	18.74

Intrinsic value is the amount by which the fair value of the underlying stock exceeds the exercise price of an option on the exercise date. The total intrinsic value of share options exercised during the six months ended June 30, 2017 was \$398 thousand.

Restricted Stock: Restricted stock provides grantees with rights to shares of common stock upon completion of a service period. Shares of unvested restricted stock are considered participating securities. Restricted stock awards generally vest over one to five years.

The following table presents the activity for restricted stock for the six months ended June 30, 2017:

	Six Months Ended June 30, 2017	
	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at beginning of period	96,594	\$ 19.80
Granted	28,250	32.94
Vested	(6,850)	19.72
Forfeited	(14,774)	20.00
Unvested at end of period	<u>103,220</u>	23.38

The Company's restricted stock expense for the six months ended June 30, 2017 and 2016 was \$434 thousand and \$500 thousand, respectively.

Market Conditions Restricted Stock : On December 9, 2014 the Company issued restricted stock with market and service conditions pursuant to the Company's 2012 Stock Plan. At the time of the grant, the maximum number of shares that can vest was 49,400. The actual number of shares to be vested was based on market criteria over a five-year period ending on December 1, 2019 based on the Company's stock price being at or above \$25.00, \$27.00 and \$29.00 per share over a 60-day consecutive period. These shares may have vested over a period from December 1, 2017 to December 1, 2019 based on meeting the price targets. In addition, the grantees must have been employed with the Company on the vesting date to receive the shares. The Company determined the fair value of these market condition awards in accordance with ASC 718 Stock Compensation using the Monte Carlo simulation model deemed appropriate for this type of grant. The grant date fair value for these grants was \$11.63 for the awards that vest at the \$25 stock price, \$10.30 for the awards that vest at the \$27 stock price and \$9.10 for the awards that vest at the \$29 stock price. The grant date fair value for the Company's stock was \$18.99 per share.

In January 2016 the Company modified the market conditions restricted stock grant. The total shares originally granted for the \$29.00 price target have been modified to a time based restricted stock grant. The shares will vest over a four year period with the first installment having vested on December 1, 2016 and the remaining shares to vest on each annual anniversary thereafter. In addition, the shares originally granted for the \$25.00 and \$27.00 price targets have been modified. These shares vest over a period from the date of the modification to December 1, 2019 based on meeting the price targets. The price targets will be met when the 30 day average stock price meets or exceeds the price targets. The Company determined the fair market value of the modified awards for the \$25.00 and \$27.00 price targets in accordance with ASC 718 Stock Compensation using the Monte Carlo simulation model deemed appropriate for this type of modification. The Company expensed an incremental cost associated with this modification of \$2.19 for the awards that vest at the \$25 stock price, \$2.03 for the awards that vest at the \$27 stock price and \$13.66 for the awards that were modified to a time based grant. The shares granted for the \$25.00 and \$27.00 price targets fully vested in the fourth quarter of 2016 based on meeting the vesting terms of the grant. The Company recognized \$0 and \$105 thousand in stock compensation expense for the six months ended June 30, 2017 and 2016, respectively, for these restricted stock awards.

As of June 30, 2017 the Company had no outstanding market conditions restricted stock.

BANKWELL FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)

9. DERIVATIVE INSTRUMENTS

Information about derivative instruments at June 30, 2017 and December 31, 2016 is as follows:

June 30, 2017:

<i>(Dollars in thousands)</i>	Notional Amount	Original Maturity	Received	Paid	Fair Value Asset (Liability)
Cash flow hedge:					
Interest rate swap on FHLB advance	\$ 25,000	4.7 years	3-month USD LIBOR	1.62%	\$ (39)
Interest rate swap on FHLB advance	25,000	5.0 years	3-month USD LIBOR	1.83%	(106)
Interest rate swap on FHLB advance	25,000	5.0 years	3-month USD LIBOR	1.48%	202
Interest rate swap on FHLB advance	25,000	5.0 years	3-month USD LIBOR	1.22%	596
	<u>\$ 100,000</u>				<u>\$ 653</u>

December 31, 2016:

<i>(Dollars in thousands)</i>	Notional Amount	Original Maturity	Received	Paid	Fair Value Asset (Liability)
Cash flow hedge:					
Interest rate swap on FHLB advance	\$ 25,000	4.7 years	3-month USD LIBOR	1.62%	\$ (91)
Interest rate swap on FHLB advance	25,000	5.0 years	3-month USD LIBOR	1.83%	(138)
Interest rate swap on FHLB advance	25,000	5.0 years	3-month USD LIBOR	1.48%	249
Interest rate swap on FHLB advance	25,000	5.0 years	3-month USD LIBOR	1.22%	717
	<u>\$ 100,000</u>				<u>\$ 737</u>

The effective portion of unrealized changes in the fair value of derivatives accounted for as cash flow hedges is reported in other comprehensive income and subsequently reclassified to earnings in the same period or periods during which the hedged forecasted transaction affects earnings. The Bank assesses the effectiveness of each hedging relationship by comparing the changes in cash flows of the derivative hedging instrument with the changes in cash flows of the designated hedged item or transaction. The ineffective portion of changes in the fair value of the derivatives is recognized directly in earnings. The interest rate swap assets are presented in other assets and the interest rate swap liabilities are presented in accrued expenses and other liabilities in the consolidated balance sheets.

The Bank's cash flow hedge positions are all forward starting interest rate swap transactions. The Bank entered into the following forward starting interest rate swap transactions:

<i>(Dollars in thousands)</i>	<u>Notional Amount</u>	<u>Original Effective Date of Hedged Borrowing</u>	<u>Duration of Borrowing</u>	<u>Counterparty</u>
Type of borrowing:				
FHLB 90-day advance	\$ 25,000	April 1, 2014	4.7 years	Bank of Montreal
FHLB 90-day advance	\$ 25,000	January 2, 2015	5.0 years	Bank of Montreal
FHLB 90-day advance	\$ 25,000	August 26, 2015	5.0 years	Bank of Montreal
FHLB 90-day advance	\$ 25,000	July 1, 2016	5.0 years	Bank of Montreal

This hedge strategy converts the floating rate of interest on certain FHLB advances to fixed interest rates, thereby protecting the Bank from floating interest rate variability.

Changes in the consolidated statements of comprehensive income related to interest rate derivatives designated as hedges of cash flows were as follows for the three and six months ended June 30, 2017 and 2016:

<i>(In thousands)</i>	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Interest rate swap on FHLB advance:				
Unrealized losses recognized in accumulated other comprehensive income	\$ (302)	\$ (643)	\$ (84)	\$ (2,051)
Income tax benefit on items recognized in accumulated other comprehensive income	105	225	29	718
Other comprehensive loss	\$ (197)	\$ (418)	\$ (55)	\$ (1,333)
Interest expense recognized on hedged FHLB advance	<u>\$ 384</u>	<u>\$ 308</u>	<u>\$ 768</u>	<u>\$ 615</u>

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

GAAP requires disclosure of fair value information about financial instruments, whether or not recognized in the statement of condition, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparisons to independent markets and, in many cases, could not be realized in immediate settlement of the instrument.

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates presented herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction at either June 30, 2017 or December 31, 2016. The estimated fair value amounts have been measured as of the respective period-ends, and have not been reevaluated or updated for purposes of these consolidated financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each period-end.

BANKWELL FINANCIAL GROUP, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)**

The carrying values, fair values and placement in the fair value hierarchy of the Company's financial instruments at June 30, 2017 and December 31, 2016 were as follows:

	June 30, 2017				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
	(In thousands)				
Financial Assets:					
Cash and due from banks	\$ 84,802	\$ 84,802	\$ 84,802	\$ -	\$ -
Federal funds sold	1,185	1,185	1,185	-	-
Available for sale securities	90,951	90,951	-	90,951	-
Held to maturity securities	23,615	23,614	-	23,614	-
Loans receivable, net	1,463,240	1,456,843	-	-	1,456,843
Accrued interest receivable	5,239	5,239	-	5,239	-
FHLB stock	8,033	8,033	-	-	8,033
Servicing asset	512	512	-	-	512
Derivative asset	798	798	-	798	-
Financial Liabilities:					
Demand deposits	\$ 176,495	\$ 176,495	\$ -	\$ -	\$ 176,495
NOW and money market	469,045	469,045	-	-	469,045
Savings	113,449	113,449	-	-	113,449
Time deposits	655,296	655,880	-	-	655,880
Accrued interest payable	844	844	-	844	-
Advances from the FHLB	150,000	150,118	-	-	150,118
Subordinated debentures	25,077	25,758	-	-	25,758
Servicing liability	364	364	-	-	364
Derivative liability	145	145	-	145	-

	December 31, 2016					
	Carrying Value	Fair Value	Level 1	Level 2	Level 3	
	(In thousands)					
Financial Assets:						
Cash and due from banks	\$ 96,026	\$ 96,026	\$ 96,026	\$ -	\$ -	
Federal funds sold	329	329	329	-	-	
Available for sale securities	87,751	87,751	-	87,751	-	
Held to maturity securities	16,859	16,851	-	16,851	-	
Loans held for sale	254	254	-	254	-	
Loans receivable, net	1,343,895	1,339,055	-	-	1,339,055	
Accrued interest receivable	4,958	4,958	-	4,958	-	
FHLB stock	7,943	7,943	-	-	7,943	
Derivative asset	966	966	-	966	-	
Financial Liabilities:						
Demand deposits	\$ 187,593	\$ 187,593	\$ -	\$ -	\$ 187,593	
NOW and money market	402,982	402,982	-	-	402,982	
Savings	96,601	96,601	-	-	96,601	
Time deposits	601,861	603,456	-	-	603,456	
Accrued interest payable	837	837	-	837	-	
Advances from the FHLB	160,000	160,118	-	-	160,118	
Subordinated debentures	25,051	25,645	-	-	25,645	
Derivative liability	229	229	-	229	-	

The following methods and assumptions were used by management in estimating the fair value of its financial instruments:

Cash and due from banks, federal funds sold, accrued interest receivable and accrued interest payable: The carrying amount is a reasonable estimate of fair value.

Available for sale and held to maturity securities: Fair values are based on quoted market prices or dealer quotes, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

FHLB stock: The carrying value of FHLB stock approximates fair value based on the most recent redemption provisions of the FHLB.

Loans held for sale: The fair value is based upon prevailing market prices for similar loans.

Loans receivable : For variable rate loans which reprice frequently and have no significant change in credit risk, fair values are based on carrying values. The fair value of fixed rate loans are estimated by discounting the future cash flows using the rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Derivative asset (liability): The valuation of the Company's interest rate swaps is obtained from a third-party pricing service and is determined using a discounted cash flow analysis on the expected cash flows of each derivative. The pricing analysis is based on observable inputs for the contractual terms of the derivatives, including the period to maturity and interest rate curves.

Servicing Asset (liability): Servicing assets and liabilities do not trade in an active, open market with readily observable prices. The Company estimates the fair value of servicing assets and liabilities using discounted cash flow models incorporating numerous assumptions from the perspective of a market participant including market discount rates.

Deposits: The fair value of demand deposits, regular savings and certain money market deposits is the amount payable on demand at the reporting date. The fair value of certificates of deposit and other time deposits is estimated using a discounted cash flow calculation that applies interest rates currently being offered for deposits of similar remaining maturities to a schedule of aggregated expected maturities on such deposits.

Borrowings and Subordinated Debentures: The fair value of the Company's borrowings and subordinated debentures is estimated using a discounted cash flow calculation that applies discount rates currently offered based on similar maturities.

11. FAIR VALUE MEASUREMENTS

The Company is required to account for certain assets and liabilities at fair value on a recurring or non-recurring basis. As discussed in Note 1, the Company determines fair value in accordance with GAAP, which defines fair value and establishes a framework for measuring fair value. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair values:

- Level 1 — Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2 — Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 — Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Valuation techniques based on unobservable inputs are highly subjective and require judgments regarding significant matters such as the amount and timing of future cash flows and the selection of discount rates that may appropriately reflect market and credit risks. Changes in these judgments often have a material impact on the fair value estimates. In addition, since these estimates are as of a specific point in time they are susceptible to material near-term changes.

Financial instruments measured at fair value on a recurring basis

The following tables detail the financial instruments carried at fair value on a recurring basis at June 30, 2017 and December 31, 2016, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value. The Company had no transfers into or out of Levels 1, 2 or 3 during the six months ended June 30, 2017 and the year ended December 31, 2016.

(In thousands)	Fair Value		
	Level 1	Level 2	Level 3
June 30, 2017:			
Available for sale investment securities:			
U.S. Government and agency obligations	\$ -	\$ 66,081	\$ -
State agency and municipal obligations	-	14,613	-
Corporate bonds	-	10,257	-
Derivative asset, net	-	653	-
December 31, 2016:			
Available for sale investment securities:			
U.S. Government and agency obligations	\$ -	\$ 62,698	\$ -
State agency and municipal obligations	-	14,763	-
Corporate bonds	-	10,290	-
Derivative asset, net	-	737	-

Available for sale investment securities : The fair value of the Company's investment securities are estimated by using pricing models or quoted prices of securities with similar characteristics (i.e. matrix pricing) and are classified within Level 2 of the valuation hierarchy.

Derivative Assets and liabilities: The Company's derivative assets and liabilities consist of transactions as part of management's strategy to manage interest rate risk. The valuation of the Company's interest rate swaps is obtained from a third-party pricing service and is determined using a discounted cash flow analysis on the expected cash flows of each derivative. The pricing analysis is based on observable inputs for the contractual terms of the derivatives, including the period to maturity and interest rate curves. The Company has determined that the majority of the inputs used to value its interest rate derivatives fall within Level 2 of the fair value hierarchy.

Financial instruments measured at fair value on a nonrecurring basis

Certain assets are measured at fair value on a non-recurring basis in accordance with GAAP. These include assets that are measured at the-lower-of-cost-or-market that were recognized at fair value below cost at the end of the period as well as assets that are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances, such as when there is evidence of impairment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)

The following table details the financial instruments carried at fair value on a nonrecurring basis at June 30, 2017 and December 31, 2016, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value:

<i>(In thousands)</i>	Fair Value		
	Level 1	Level 2	Level 3
June 30, 2017:			
Impaired loans	\$ -	\$ -	\$ 9,660
Foreclosed real estate	-	-	222
December 31, 2016:			
Impaired loans	\$ -	\$ -	\$ 4,849
Foreclosed real estate	-	-	272

The following table presents information about quantitative inputs and assumptions for Level 3 financial instruments carried at fair value on a nonrecurring basis at June 30, 2017 and December 31, 2016:

<i>(Dollars in thousands)</i>	Fair Value	Valuation Methodology	Unobservable Input	Range
June 30, 2017:				
Impaired loans	\$ 9,660	Appraisals	Discount to appraised value	8.00 - 18.40%
		Discounted cash flows	Discount rate	4.25 - 6.25%
Foreclosed real estate	\$ 222	Appraisals	Discount to appraised value	68%
December 31, 2016:				
Impaired loans	\$ 4,849	Appraisals	Discount to appraised value	8.00 - 28.00%
		Discounted cash flows	Discount rate	4.25 - 6.25%
Foreclosed real estate	\$ 272	Appraisals	Discount to appraised value	20%

Impaired loans: Loans are generally not recorded at fair value on a recurring basis. Periodically, the Company records nonrecurring adjustments to the carrying value of loans based on fair value measurements for partial charge-offs of the uncollectible portions of those loans. Nonrecurring adjustments also include certain impairment amounts for collateral-dependent loans calculated in accordance with ASC 310-10 when establishing the allowance for credit losses. Such amounts are generally based on the fair value of the underlying collateral supporting the loan. Collateral is typically valued using appraisals or other indications of value based on recent comparable sales of similar properties or other assumptions. Estimates of fair value based on collateral are generally based on assumptions not observable in the marketplace and therefore such valuations have been classified as Level 3. For those loans where the primary source of repayment is cash flow from operations, adjustments include impairment amounts calculated based on the perceived collectability of interest payments on the basis of a discounted cash flow analysis utilizing a discount rate equivalent to the original note rate.

Foreclosed real estate: The Company classifies property acquired through foreclosure or acceptance of deed-in-lieu of foreclosure as foreclosed real estate and repossessed assets in its financial statements. Upon foreclosure, the property securing the loan is written down to fair value less selling costs. The write-down is based upon differences between the appraised value and the book value. Appraisals are based on observable market data such as comparable sales, however assumptions made in determining comparability are unobservable and therefore these assets are classified as Level 3 within the valuation hierarchy.

12. SUBORDINATED DEBENTURES

On August 19, 2015 the Company completed a private placement of \$25.5 million in aggregate principal amount of fixed rate subordinated notes (the “Notes”) to certain institutional investors. The Notes are non-callable for five years, have a stated maturity of August 15, 2025, and bear interest at a quarterly pay fixed rate of 5.75% per annum to the maturity date or the early redemption date.

The Notes have been structured to qualify for the Company as Tier 2 capital under regulatory guidelines. We used the net proceeds for general corporate purposes, which included maintaining liquidity at the holding company, providing equity capital to the Bank to fund balance sheet growth and our working capital needs.

13. INCOME TAXES

The Company is subject to federal and state income tax at the statutory rates and makes several adjustments to arrive at the effective tax rate. The Company adjusts for non-deductible meals and entertainment, interest earned on municipal bonds, income earned on our investment in bank owned life insurance, windfall tax benefits resulting from restricted stock vesting and reductions in Connecticut state income tax as a result from the establishment of a passive investment company.

Income tax expense for the three months ended June 30, 2017 and 2016 totaled \$2.4 million and \$1.3 million, respectively. The effective tax rates for the three months ended June 30, 2017 and 2016 were 38.8%, and 31.3%, respectively. Income tax expense for the six months ended June 30, 2017 and 2016 totaled \$4.1 million and \$2.7 million, respectively. The effective tax rates for the six months ended June 30, 2017 and 2016 were 35.6%, and 31.2%, respectively. The increase in the effective tax rate is driven by a temporary increase as a result of adjustments related to additional income tax expense resulting from treatment of acquisition related items on prior years’ tax returns and increased out of state lending.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This section presents management's perspective on our financial condition and results of operations. The following discussion and analysis should be read in conjunction with the unaudited interim consolidated financial statements and related notes contained elsewhere in this report on Form 10-Q. To the extent that this discussion describes prior performance, the descriptions relate only to the periods listed, which may not be indicative of future financial outcomes. In addition to historical information, this discussion contains forward-looking statements that involve risks, uncertainties and assumptions that could cause results to differ materially from management's expectations. Factors that could cause such differences are discussed in the Company's Form 10-K filed for the year ended December 31, 2016 in the sections titled "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors" We assume no obligation to update any of these forward-looking statements.

General

Bankwell Financial Group, Inc. is a bank holding company headquartered in New Canaan, Connecticut. Through our wholly owned subsidiary, Bankwell Bank, or the Bank, we serve small and medium-sized businesses and retail customers in the New York metropolitan area, with the majority of our loans in Fairfield and New Haven Counties, Connecticut. We have a history of building long-term customer relationships and attracting new customers through what we believe is our strong customer service and our ability to deliver a diverse product offering.

The following discussion and analysis presents our results of operations and financial condition on a consolidated basis. However, because we conduct all of our material business operations through the Bank, the discussion and analysis relates to activities primarily conducted at the Bank.

We generate most of our revenue from interest on loans and investments and fee-based revenues. Our primary source of funding for our loans is deposits. Our largest expenses are interest on these deposits and salaries and related employee benefits. We measure our performance primarily through our net interest margin, efficiency ratio, ratio of allowance for loan losses to total loans, return on average assets and return on average equity, among other metrics, while maintaining appropriate regulatory leverage and risk-based capital ratios.

Critical Accounting Policies and Estimates

The discussion and analysis of our results of operations and financial condition are based on our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of financial statements in conformity with GAAP requires us to make significant estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from our current estimates, as a result of changing conditions and future events.

We believe that accounting estimates related to the initial measurement of goodwill and intangible assets and subsequent impairment analyses, the allowance for loan losses, stock-based compensation, derivative instrument valuation, investment securities valuation, evaluation of investment securities for other than temporary impairment and deferred income taxes valuation are particularly critical and susceptible to significant near-term change. These accounting estimates are discussed further in the Company's Form 10-K filed for the year ended December 31, 2016.

Executive Overview

We are focused on being the “Hometown” bank and the banking provider of choice in our highly attractive market area, and to serve as a locally based alternative to our larger competitors. We aim to do this through:

- responsive, customer-centric products and services and a community focus;
- strategic acquisitions;
- utilization of efficient and scalable infrastructure;
- disciplined focus on risk management; and
- organic growth.

On November 5, 2013 we completed the merger of Wilton Bank into Bankwell Bank. The Wilton Bank had one branch located in Wilton, Connecticut.

On May 15, 2014, Bankwell Financial Group, Inc. priced 2,702,703 common shares in its IPO at \$18.00 per share and Bankwell common shares began trading on the Nasdaq Stock Market. The net proceeds from the IPO were approximately \$44.7 million, after deducting the underwriting discount of approximately \$2.5 million and approximately \$1.3 million of expenses. We used the net proceeds for general corporate purposes, which included maintaining liquidity at the holding company, providing equity capital to the Bank to fund balance sheet growth, our working capital needs, and funding acquisitions of branches and whole financial institutions in or around our existing market that furthered our objectives.

On October 1, 2014 Quinnipiac Bank and Trust (“Quinnipiac”) merged with and into Bankwell Bank. Quinnipiac had one branch located in Hamden, Connecticut and a second branch located in the neighboring town of North Haven, Connecticut.

On August 19, 2015 the Company completed a private placement of \$25.5 million in aggregate principal amount of fixed rate subordinated notes (the “Notes”) to certain institutional investors. The Notes are non-callable for five years, have a stated maturity of August 15, 2025, and bear interest at a quarterly pay fixed rate of 5.75% per year to the maturity date or the early redemption date.

On November 20, 2015 the Company redeemed \$10.98 million (10,980 shares) of preferred stock issued pursuant to the United States Department of Treasury (“Treasury”) under the Small Business Lending Fund Program (the “SBLF”). The shares were redeemed at their liquidation value of \$1,000 per share plus accrued dividends through November 20, 2015. The redemption was approved by the Company’s primary federal regulator and was funded with the Company’s surplus capital. With this redemption, the Company has redeemed all of its outstanding SBLF stock.

On January 25, 2017 the Company’s Board of Directors declared a \$0.07 per share cash dividend, payable February 27, 2017 to shareholders of record on February 17, 2017. On April 26, 2017 the Company’s Board of Directors declared a \$0.07 per share cash dividend, payable May 26, 2017 to shareholders of record on May 16, 2017.

Earnings Overview

Net income available to common shareholders was \$3.8 million, or \$0.49 per diluted share, and \$2.9 million, or \$0.38 per diluted share, for the three months ended June 30, 2017 and 2016, respectively. Returns on average equity and average assets for the three months ended June 30, 2017 were 9.89% and 0.88%, respectively, compared to 8.54% and 0.82%, respectively, for the three months ended June 30, 2016.

Net income available to common shareholders was \$7.5 million, or \$0.97 per diluted share, and \$5.9 million, or \$0.78 per diluted share, for the six months ended June 30, 2017 and 2016, respectively. Returns on average equity and average assets for the six months ended June 30, 2017 were 10.00% and 0.90%, respectively, compared to 8.77% and 0.85%, respectively, for the six months ended June 30, 2016.

For the three months ended June 30, 2017, we had net interest income of \$13.6 million, an increase of \$1.8 million, or 14.8%, over the three months ended June 30, 2016. Our net interest margin (fully taxable equivalent basis) for the three months ended June 30, 2017 and 2016 was 3.32% and 3.50%, respectively. We experienced an increase in our non-interest income, which totaled \$998 thousand for the three months ended June 30, 2017 representing 6.8% of our total revenue, up from \$853 thousand, or 6.7% of total revenue, for the three months ended June 30, 2016.

For the six months ended June 30, 2017, we had net interest income of \$26.6 million, an increase of \$3.3 million, or 14.2%, over the six months ended June 30, 2016. Our net interest margin (fully taxable equivalent basis) for the six months ended June 30, 2017 and 2016 was 3.34% and 3.52%, respectively. We experienced an increase in our non-interest income, which totaled \$2.3 million for the six months ended June 30, 2017 representing 7.8% of our total revenue, up from \$1.5 million, or 6.1% of total revenue, for the six months ended June 30, 2016.

Results of Operations

Net Interest Income

Net interest income is the difference between interest earned on loans and securities and interest paid on deposits and other borrowings, and is the primary source of our operating income. Net interest income is affected by the level of interest rates, changes in interest rates and changes in the amount and composition of interest-earning assets and interest-bearing liabilities. Included in interest income are certain loan fees, such as deferred origination fees, late charges and the effect of deferred loan fees and costs accounted for as yield adjustments. Premium amortization and discount accretion are included in the respective interest income and interest expense amounts. The following tables and discussion present net interest income on a fully taxable equivalent, or FTE basis, by adjusting income and yields on tax-exempt loans and securities to be comparable to taxable loans and securities. We convert tax-exempt income to a FTE basis using the statutory federal income tax rate adjusted for applicable state income taxes net of the related federal tax benefit. The average balances are principally daily averages.

FTE net interest income for the three months ended June 30, 2017 and 2016 was \$13.8 million and \$12.0 million, respectively. FTE net interest income for the six months ended June 30, 2017 and 2016 was \$26.9 million and \$23.5 million, respectively. Net interest income was favorably impacted by higher average balances, offset by lower margins. Our net interest margin decreased 18 basis points to 3.32% for the three months ended June 30, 2017, compared to the three months ended June 30, 2016 and decreased 18 basis points to 3.34% for the six months ended June 30, 2017, compared to the six months ended June 30, 2016. The decrease in the net interest margin was primarily due to higher rates on interest bearing deposits driven by rate increases to remain competitive in the market place.

FTE basis interest income for the three months ended June 30, 2017 increased by \$3.0 million, or 20.1%, to \$17.8 million, compared to FTE basis interest income for the three months ended June 30, 2016 due primarily to loan growth in our commercial real estate and commercial business portfolios. Average interest-earning assets were \$1.7 billion for the three months ended June 30, 2017, up by \$285.9 million or 20.8% compared to the three months ended June 30, 2016. The average yield on interest earning assets declined slightly from 4.28% for the three months ended June 30, 2016 to 4.25% for the three months ended June 30, 2017 due mainly to lower yields on commercial real estate and commercial business loans.

FTE basis interest income for the six months ended June 30, 2017 increased by \$5.4 million, or 18.8%, to \$34.4 million, compared to FTE basis interest income for the six months ended June 30, 2016 due primarily to loan growth in our commercial real estate and commercial business portfolios. Average interest-earning assets were \$1.6 billion for the six months ended June 30, 2017, up by \$273.0 million or 20.4% compared to the six months ended June 30, 2016. The average yield on interest earning assets declined slightly from 4.28% for the six months ended June 30, 2016 to 4.25% for the six months ended June 30, 2017 due mainly to lower yields on commercial real estate and commercial business loans.

Interest expense for the three months ended June 30, 2017, increased by \$1.2 million, or 42.9%, compared to interest expense for the three months ended June 30, 2016 due to a \$271.5 million increase in the average balances of interest-bearing liabilities due to higher average balances in money market accounts, time accounts, savings accounts and borrowed money, and increased rates on deposits, primarily due to increased rates on certificates of deposits and money market accounts to remain competitive in the market place.

Interest expense for the six months ended June 30, 2017, increased by \$2.1 million, or 38.6%, compared to interest expense for the six months ended June 30, 2016 due to a \$257.2 million increase in the average balances of interest-bearing liabilities due to higher average balances in money market accounts, time accounts and borrowed money, and increased rates on deposits, primarily due to increased rates on certificates of deposits and money market accounts to remain competitive in the market place.

Distribution of Assets, Liabilities and Stockholders' Equity; Interest Rates and Interest Differential

The following tables present the average balances and yields earned on interest-earning assets and average balances and weighted average rates paid on our funding liabilities for the three and six months ended June 30, 2017 and 2016.

	Three Months Ended June 30,					
	2017			2016		
(Dollars in thousands)	Average Balance	Interest	Yield / Rate	Average Balance	Interest	Yield / Rate
Assets:						
Cash and Fed funds sold	\$ 86,543	\$ 148	0.69%	\$ 30,728	\$ 28	0.37%
Securities (1)	105,850	947	3.58	105,886	795	3.00
Loans:						
Commercial real estate	899,344	10,230	4.50	761,796	8,772	4.56
Residential real estate	181,810	1,648	3.63	180,649	1,612	3.57
Construction (2)	109,681	1,299	4.69	96,122	1,099	4.52
Commercial business	251,981	3,304	5.19	173,235	2,309	5.27
Home equity	14,582	168	4.62	15,313	155	4.08
Consumer	1,320	11	3.21	1,918	24	5.10
Total loans	1,458,718	16,660	4.52	1,229,033	13,971	4.50
Federal Home Loan Bank stock	8,033	81	4.02	7,556	58	3.09
Total earning assets	1,659,144	17,836	4.25%	1,373,203	14,852	4.28%
Other assets	61,588			53,637		
Total assets	\$ 1,720,732			\$ 1,426,840		
Liabilities and shareholders' equity:						
Interest-bearing liabilities:						
NOW	\$ 61,002	20	0.13%	\$ 57,123	32	0.23%
Money market	383,919	771	0.81	321,354	449	0.56
Savings	113,736	217	0.76	69,069	66	0.38
Time	644,222	2,087	1.30	511,086	1,415	1.11
Total interest-bearing deposits	1,202,879	3,095	1.03	958,632	1,962	0.82
Borrowed money	184,958	952	2.04	157,732	870	2.18
Total interest bearing liabilities	1,387,837	4,047	1.17%	1,116,364	2,832	1.02%
Noninterest-bearing deposits	167,111			167,190		
Other liabilities	12,886			6,897		
Total Liabilities	1,567,834			1,290,451		
Shareholders' equity	152,898			136,389		
Total liabilities and shareholders' equity	\$ 1,720,732			\$ 1,426,840		
Net interest income (3)		\$ 13,789			\$ 12,020	
Interest rate spread			3.08%			3.26%
Net interest margin (4)			3.32%			3.50%

(1) Average balances and yields for securities are based on amortized cost.

(2) Includes commercial and residential real estate construction.

(3) The adjustment for securities and loans taxable equivalency amounted to \$147 thousand and \$141 thousand, respectively, for the three months ended June 30, 2017 and 2016.

(4) Annualized net interest income as a percentage of earning assets.

Six Months Ended June 30,

	2017			2016		
	Average Balance	Interest	Yield / Rate	Average Balance	Interest	Yield / Rate
<i>(Dollars in thousands)</i>						
Assets:						
Cash and Fed funds sold	\$ 77,440	\$ 262	0.68%	\$ 31,704	\$ 64	0.41%
Securities (1)	103,852	1,808	3.48	103,939	1,559	3.00
Loans:						
Commercial real estate	877,078	19,914	4.52	737,924	17,122	4.59
Residential real estate	180,747	3,238	3.58	178,998	3,208	3.58
Construction (2)	107,515	2,548	4.71	91,305	2,067	4.48
Commercial business	240,477	6,131	5.07	169,639	4,499	5.25
Home equity	14,114	318	4.54	15,458	312	4.05
Consumer	1,484	25	3.40	1,738	21	2.44
Total loans	1,421,415	32,174	4.50	1,195,062	27,229	4.51
Federal Home Loan Bank stock	8,027	159	3.97	7,058	116	3.28
Total earning assets	1,610,734	34,403	4.25%	1,337,763	28,968	4.28%
Other assets	60,633			54,403		
Total assets	\$ 1,671,367			\$ 1,392,166		
Liabilities and shareholders' equity:						
Interest-bearing liabilities:						
NOW	\$ 57,816	46	0.16%	\$ 56,855	70	0.25%
Money market	364,048	1,337	0.74	313,727	847	0.54
Savings	112,372	402	0.72	75,565	151	0.40
Time	619,950	3,892	1.27	482,715	2,634	1.10
Total interest-bearing deposits	1,154,186	5,677	0.99	928,862	3,702	0.80
Borrowed money	183,514	1,858	2.01	151,604	1,736	2.26
Total interest bearing liabilities	1,337,700	7,535	1.14%	1,080,466	5,438	1.01%
Noninterest-bearing deposits	170,886			169,853		
Other liabilities	12,152			6,914		
Total Liabilities	1,520,738			1,257,233		
Shareholders' equity	150,629			134,933		
Total liabilities and shareholders' equity	\$ 1,671,367			\$ 1,392,166		
Net interest income (3)		\$ 26,868			\$ 23,530	
Interest rate spread			3.11%			3.27%
Net interest margin (4)			3.34%			3.52%

(1) Average balances and yields for securities are based on amortized cost.

(2) Includes commercial and residential real estate construction.

(3) The adjustment for securities and loans taxable equivalency amounted to \$279 thousand and \$253 thousand, respectively, for the six months ended June 30, 2017 and 2016.

(4) Annualized net interest income as a percentage of earning assets.

Effect of changes in interest rates and volume of average earning assets and average interest-bearing liabilities

The following table shows the extent to which changes in interest rates and changes in the volume of average earning assets and average interest-bearing liabilities have affected net interest income. For each category of earning assets and interest-bearing liabilities, information is provided relating to: changes in volume (changes in average balances multiplied by the prior year's average interest rates); changes in rates (changes in average interest rates multiplied by the prior year's average balances); and the total change. Changes attributable to both volume and rate have been allocated proportionately based on the relationship of the absolute dollar amount of change in each.

<i>(In thousands)</i>	Three Months Ended June 30, 2017 vs 2016 Increase (Decrease)			Six Months Ended June 30, 2017 vs 2016 Increase (Decrease)		
	Volume	Rate	Total	Volume	Rate	Total
Interest and dividend income:						
Cash and Fed funds sold	\$ 81	\$ 39	\$ 120	\$ 136	\$ 62	\$ 198
Securities	-	152	152	(1)	250	249
Loans:						
Commercial real estate	1,566	(108)	1,458	3,181	(389)	2,792
Residential real estate	10	26	36	30	-	30
Construction	159	41	200	382	99	481
Commercial business	1,033	(38)	995	1,822	(190)	1,632
Home equity	(7)	20	13	(28)	34	6
Consumer	(6)	(7)	(13)	(3)	7	4
Total loans	2,755	(66)	2,689	5,384	(439)	4,945
Federal Home Loan Bank stock	4	19	23	17	26	43
Total change in interest and dividend income	2,840	144	2,984	5,536	(101)	5,435
Interest expense:						
Deposits:						
NOW	2	(14)	(12)	1	(25)	(24)
Money market	99	223	322	151	339	490
Savings	59	92	151	96	155	251
Time	406	267	673	823	435	1,258
Total deposits	566	568	1,134	1,071	904	1,975
Borrowed money	143	(61)	82	339	(217)	122
Total change in interest expense	709	507	1,216	1,410	687	2,097
Change in net interest income	<u>\$ 2,131</u>	<u>\$ (363)</u>	<u>\$ 1,768</u>	<u>\$ 4,126</u>	<u>\$ (788)</u>	<u>\$ 3,338</u>

Provision for Loan Losses

The provision for loan losses is based on management's periodic assessment of the adequacy of the allowance for loan losses which, in turn, is based on such interrelated factors as the composition of the loan portfolio and its inherent risk characteristics, the level of nonperforming loans and net charge-offs, both current and historic, local economic and credit conditions, the direction of real estate values, and regulatory guidelines. The provision for loan losses is charged against earnings in order to maintain our allowance for loan losses and reflects management's best estimate of probable losses inherent in our loan portfolio at the balance sheet date.

Under accounting standards for business combinations, acquired loans are recorded at fair value with no loan loss allowance on the date of acquisition. A provision for loan losses will be recorded for the emergence of new probable and estimable losses on acquired loans which were not impaired as of the acquisition date.

The provision for loan losses for the three months ended June 30, 2017 was \$895 thousand compared to \$1.3 million provision for loan losses for the three months ended June 30, 2016. The provision for loan losses for the six months ended June 30, 2017 was \$1.4 million compared to \$1.9 million provision for loan losses for the six months ended June 30, 2016. For further information, see sections titled Asset Quality and Allowance for Loan Losses.

Noninterest Income

The following tables compare noninterest income for the three and six months ended June 30, 2017 and 2016:

<i>(Dollars in thousands)</i>	Three Months Ended		Change	
	June 30,			
	2017	2016	\$	%
Bank owned life insurance	\$ 295	\$ 174	\$ 121	70%
Service charges and fees	261	235	26	11
Gains and fees from sales of loans	199	114	85	75
Gain on sale of foreclosed real estate, net	-	128	(128)	(100)
Net gain on sale of available for sale securities	-	92	(92)	(100)
Other	243	110	133	121
Total noninterest income	<u>\$ 998</u>	<u>\$ 853</u>	<u>\$ 145</u>	<u>17%</u>

Noninterest income increased \$145 thousand or 17% to \$998 thousand for the three months ended June 30, 2017 compared to the three months ended June 30, 2016. The increase in noninterest income was primarily driven by income earned from our additional purchases of bank owned life insurance, an increase in the gains and fees from the sales of loans and rental income earned from the tenants occupying the additional space in the executive headquarters building recently acquired in the fourth quarter of 2016.

<i>(Dollars in thousands)</i>	Six Months Ended		Change	
	June 30,			
	2017	2016	\$	%
Bank owned life insurance	\$ 586	\$ 348	\$ 238	68%
Gains and fees from sales of loans	523	224	299	133
Service charges and fees	501	480	21	4
Gain on sale of foreclosed real estate, net	-	128	(128)	(100)
Net gain on sale of available for sale securities	165	92	73	79
Other	489	253	236	93
Total noninterest income	<u>\$ 2,264</u>	<u>\$ 1,525</u>	<u>\$ 739</u>	<u>48%</u>

Noninterest income increased \$739 thousand or 48% to \$2.3 million for the six months ended June 30, 2017 compared to the six months ended June 30, 2016. The increase in noninterest income was primarily driven by income earned from our additional purchases of bank owned life insurance, an increase in the gains and fees from the sales of loans and rental income earned from the tenants occupying the additional space in the executive headquarters building recently acquired in the fourth quarter of 2016.

Noninterest Expense

The following tables compare noninterest expense for the three and six months ended June 30, 2017, and 2016:

	Three Months Ended June 30,		Change	
	2017	2016	\$	%
<i>(Dollars in thousands)</i>				
Salaries and employee benefits	\$ 3,800	\$ 3,747	\$ 53	1%
Occupancy and equipment	1,439	1,392	47	3
Professional services	523	370	153	41
Data processing	401	377	24	6
Marketing	311	263	48	18
FDIC insurance	243	168	75	45
Director fees	243	210	33	16
Foreclosed real estate	60	30	30	100
Amortization of intangibles	31	40	(9)	(23)
Other	530	618	(88)	(14)
Total noninterest expense	\$ 7,581	\$ 7,215	\$ 366	5%

Noninterest expense increased \$366 thousand or 5% for the three months ended June 30, 2017 compared to the three months ended June 30, 2016. The increase was primarily driven by an increase in professional services due to an increase in fees paid in relation to strategic initiatives.

	Six Months Ended June 30,		Change	
	2017	2016	\$	%
<i>(Dollars in thousands)</i>				
Salaries and employee benefits	\$ 7,729	\$ 7,484	\$ 245	3%
Occupancy and equipment	3,131	2,800	331	12
Professional services	935	736	199	27
Data processing	846	784	62	8
FDIC insurance	626	337	289	86
Marketing	577	402	175	44
Director fees	476	439	37	8
Foreclosed real estate	67	102	(35)	(34)
Amortization of intangibles	62	80	(18)	(23)
Other	1,366	1,131	235	21
Total noninterest expense	\$ 15,815	\$ 14,295	\$ 1,520	11%

Noninterest expense increased \$1.5 million or 11% for the six months ended June 30, 2017 compared to the six months ended June 30, 2016. The increase was primarily driven by an increase in occupancy and equipment expenses, salaries and employee benefits, and professional services. The increase in occupancy and equipment expenses was driven by increases in IT related expenses, one time charges relating to back office consolidation activity and maintenance costs for our recently acquired headquarters building. The increase in salaries and employee benefits was driven by an increase in full time equivalent employees. Average full time equivalent employees totaled 129 at June 30, 2017 compared to 122 at June 30, 2016. The increase in professional services was driven by an increase in fees paid in relation to strategic initiatives.

Income Tax Expense

Income tax expense for the three months ended June 30, 2017 and 2016 totaled \$2.4 million and \$1.3 million, respectively. The effective tax rates for the three months ended June 30, 2017 and 2016 were 38.8%, and 31.3%, respectively. Income tax expense for the six months ended June 30, 2017 and 2016 totaled \$4.1 million and \$2.7 million, respectively. The effective tax rates for the six months ended June 30, 2017 and 2016 were 35.6%, and 31.2%, respectively. The increase in the effective tax rate is driven by a temporary increase as a result of adjustments related to additional income tax expense resulting from treatment of acquisition related items on prior years' tax returns and increased out of state lending.

Financial Condition

Summary

At June 30, 2017, total assets were \$1.8 billion, a \$126.9 million, or 7.8%, increase over December 31, 2016. Total loans and deposits were \$1.5 billion and \$1.4 billion, respectively at June 30, 2017. Our credit quality remained strong, with nonperforming assets to total assets of 0.31% and the allowance for loan losses to total loans was 1.31%. Total shareholders' equity at June 30, 2017 and December 31, 2016 was \$153.6 million and \$145.9 million, respectively. Tangible book value was \$19.89 per share at June 30, 2017 compared to \$18.98 per share at December 31, 2016.

Loan Portfolio

We originate commercial and residential real estate loans, including construction loans, commercial business loans, home equity and other consumer loans. Lending activities are primarily conducted within our market of the New York metropolitan area, with the majority of our loans in Fairfield and New Haven Counties, Connecticut. Our loan portfolio is the largest category of our earning assets. Loans acquired in connection with the Wilton acquisition in November 2013 and the Quinnipiac acquisition in October 2014 are referred to as "acquired" loans as a result of the manner in which they are accounted for. All other loans are referred to as "originated" loans. Accordingly, selected disclosures that follow are presented separately for the originated loan portfolio and the acquired loan portfolio.

Total loans before deferred loan fees and the allowance for loan losses were \$1.5 billion at June 30, 2017, up by \$120.3 million, or 8.8%, from December 31, 2016. Commercial real estate loans have experienced the most significant growth, up by \$57.8 million.

The following table compares the composition of our loan portfolio for the dates indicated:

(In thousands)	June 30, 2017			December 31, 2016			Change	
	Originated	Acquired	Total	Originated	Acquired	Total	(\$)	(%)
Real estate loans:								
Residential	\$ 178,481	\$ 2,524	\$ 181,005	\$ 178,549	\$ 2,761	\$ 181,310	\$ (305)	0%
Commercial	864,550	38,530	903,080	802,156	43,166	845,322	57,758	7%
Construction	117,239	109	117,348	107,329	112	107,441	9,907	9%
Home equity	8,708	5,879	14,587	8,549	5,870	14,419	168	1%
	1,168,978	47,042	1,216,020	1,096,583	51,909	1,148,492	67,528	6%
Commercial business	253,207	16,104	269,311	198,456	17,458	215,914	53,397	25%
Consumer	785	172	957	672	861	1,533	(576)	-38%
Total loans	<u>\$ 1,422,970</u>	<u>\$ 63,318</u>	<u>\$ 1,486,288</u>	<u>\$ 1,295,711</u>	<u>\$ 70,228</u>	<u>\$ 1,365,939</u>	<u>\$ 120,349</u>	<u>9%</u>

Asset Quality

Asset quality metrics remained strong through the first half of 2017. Nonperforming assets totaled \$5.5 million and represented 0.31% of total assets at June 30, 2017, compared to \$3.2 million and 0.20% of total assets at December 31, 2016. Nonaccrual loans totaled \$5.3 million at June 30, 2017, an increase of \$2.4 million compared to December 31, 2016. The balance of foreclosed real estate totaled \$222 thousand at June 30, 2017 and \$272 thousand at December 31, 2016.

The following table presents nonperforming assets and additional asset quality data for the dates indicated:

(In thousands)	At June 30, 2017			At December 31, 2016		
	Originated	Acquired	Total	Originated	Acquired	Total
Nonaccrual loans:						
Real estate loans:						
Residential	\$ 969	\$ -	\$ 969	\$ 969	\$ -	\$ 969
Commercial	613	1,172	1,785	302	144	446
Home equity	185	450	635	190	453	643
Consumer	341	5	346	341	-	341
Commercial business	1,227	341	1,568	378	160	538
Total non accrual loans	3,335	1,968	5,303	2,180	757	2,937
Property acquired through foreclosure or repossession, net	-	222	222	-	272	272
Total nonperforming assets	<u>\$ 3,335</u>	<u>\$ 2,190</u>	<u>\$ 5,525</u>	<u>\$ 2,180</u>	<u>\$ 1,029</u>	<u>\$ 3,209</u>
Nonperforming assets to total assets	0.19%	0.12%	0.31%	0.13%	0.06%	0.20%
Nonaccrual loans to total loans	0.23%	3.11%	0.36%	0.17%	1.08%	0.22%
Total past due loans to total loans	0.14%	2.25%	0.23%	0.29%	3.61%	0.47%

Allowance for Loan Losses

Establishing an appropriate level of allowance for loan losses, or the allowance, involves a high degree of judgment. We use a methodology to systematically measure the amount of estimated loan loss exposure inherent in our loan portfolio for purposes of establishing a sufficient allowance for loan losses. We evaluate the adequacy of the allowance at least quarterly. Our allowance for loan losses is our best estimate of the probable loan losses inherent in our loan portfolio as of the balance sheet date. The allowance is increased by provisions charged to earnings and by recoveries of amounts previously charged off, and is reduced by charge-offs on loans.

At June 30, 2017, our allowance for loan losses was \$19.5 million and represented 1.31% of total loans, compared to \$18.0 million, or 1.32% of total loans, at December 31, 2016. The net increase in the allowance primarily reflects a provision of \$1.4 million for the six months ended June 30, 2017.

The following tables present the activity in our allowance for loan losses and related ratios for the dates indicated, and include both originated and acquired allowance activity:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
<i>(Dollars in thousands)</i>				
Balance at beginning of period	\$ 18,511	\$ 14,810	\$ 17,982	\$ 14,169
Charge-offs:				
Construction	-	-	-	(7)
Consumer	(16)	(12)	(31)	(15)
Total charge-offs	(16)	(12)	(31)	(22)
Recoveries:				
Residential real estate	146	-	146	-
Consumer	-	1	1	6
Total recoveries	146	1	147	6
Net recoveries (charge-offs)	130	(11)	116	(16)
Provision charged to earnings	895	1,301	1,438	1,947
Balance at end of period	\$ 19,536	\$ 16,100	\$ 19,536	\$ 16,100
Net (recoveries) charge-offs to average loans	(0.01)%	0.00%	(0.01)%	0.00%
Allowance for loan losses to total loans	1.31%	1.26%	1.31%	1.26%

The following tables present the allocation of the allowance for loan losses and the percentage of these loans to total loans for the dates indicated:

	At June 30, 2017		At December 31, 2016	
	Amount	Percent of Loan Portfolio	Amount	Percent of Loan Portfolio
<i>(Dollars in thousands)</i>				
Residential real estate	\$ 1,465	12.18%	\$ 1,646	13.27%
Commercial real estate	9,695	60.76	9,415	61.89
Construction	2,268	7.90	2,105	7.87
Home equity	168	0.98	156	1.05
Commercial business	5,564	18.12	4,283	15.81
Consumer	376	0.06	377	0.11
Total allowance for loan losses	\$ 19,536	100.00%	\$ 17,982	100.00%

The allocation of the allowance for loan losses at June 30, 2017 reflects our assessment of credit risk and probable loss within each portfolio. We believe that the level of the allowance for loan losses at June 30, 2017 is appropriate to cover probable losses.

Reserve for Unfunded Commitments

The reserve for unfunded commitments provides for probable losses inherent with funding the unused portion of legal commitments to lend. The unfunded reserve calculation is primarily based on our ALLL methodology for funded loans, adjusted for utilization expectations. The reserve for unfunded credit commitments is included within other liabilities in the accompanying Consolidated Balance Sheets, and changes in the reserve are reported as a component of other expense in the accompanying Consolidated Statements of Income.

Servicing Assets and Liabilities

In the second quarter of 2017 the Company established a servicing asset totaling \$0.5 million and a servicing liability totaling \$0.4 million resulting from various prior year loan sales and participations for which servicing was retained by the Bank. As a result of establishing the servicing asset and liability the Company recorded interest income in the pre-tax amount of \$0.1 million related to the acceleration of deferred fee income and noninterest income in the pre-tax amount of \$0.1 million.

Investment Securities

At June 30, 2017, the carrying value of our investment securities portfolio totaled \$114.6 million and represented 6.5% of total assets, compared to \$104.6 million and represented 6.4% of total assets at December 31, 2016. The increase of \$10.0 million primarily reflects purchases. We purchase investment grade securities with a focus on earnings and duration exposure.

The net unrealized gain position on our investment portfolio at June 30, 2017 and December 31, 2016 was \$919 thousand and \$624 thousand, respectively and included gross unrealized losses of \$122 thousand and \$200 thousand, respectively. The gross unrealized losses were concentrated in U.S. Government and agency obligations and state agency and municipal obligations. The Company continually monitors its U.S. Government, state agency, municipal and corporate bond portfolios and at this time these portfolios have minimal default risk because state agency, municipal and corporate bonds are all rated above investment grade.

Sources of Funds

Total deposits were \$1.4 billion at June 30, 2017, an increase of \$125.2 million, from the balance at December 31, 2016 primarily reflecting increases in certificates of deposits and money market accounts. Certificates of deposit increased \$53.4 million from \$601.9 million at December 31, 2016 to \$655.3 million at June 30, 2017. Money markets increased \$52.0 million from \$349.1 million at December 31, 2016 to \$401.1 million at June 30, 2017. Brokered deposits totaled \$60.4 million at June 30, 2017 and \$58.2 million at December 31, 2016 and represent brokered certificates of deposit, brokered money market accounts, one way CDARS and reciprocal deposits for customers that desire FDIC protection. Brokered deposits are utilized as an additional source of funding.

We utilize advances from the Federal Home Loan Bank of Boston, or FHLB, as part of our overall funding strategy and to meet short-term liquidity needs. Total FHLB advances were \$150.0 million and \$160.0 million at June 30, 2017 and December 31, 2016, respectively. The decrease of \$10.0 million or 6.3% reflects normal operating fluctuation in our borrowings.

Liquidity

The Company is required to maintain levels of liquid assets sufficient to ensure the Company's safe and sound operation. Liquidity is defined as the ability to generate sufficient cash flows to meet all present and future funding requirements at reasonable costs. Our primary source of liquidity is deposits. Other sources of funding include discretionary use of FHLB term advances and other borrowings, cash flows from our investment securities portfolios, loan repayments and earnings. Investment securities designated as available-for-sale may also be sold in response to short-term or long-term liquidity needs.

The Company anticipates that it will have sufficient funds available to meet its current loan and other commitments. As of June 30, 2017, the Company had cash and cash equivalents of \$86.0 million and available-for-sale securities of \$91.0 million. At June 30, 2017, outstanding commitments to originate loans totaled \$111.3 million and undisbursed funds from approved lines of credit, home equity lines of credit and secured commercial lines of credit totaled \$121.3 million. Time deposits scheduled to mature in one year or less at June 30, 2017 totaled \$356.1 million. The Company's deposit flow history has been that a significant portion of such deposits remain with the Company.

Capital Resources

Total shareholders' equity was \$153.6 million at June 30, 2017 compared to \$145.9 million at December 31, 2016. The increase of \$7.7 million primarily reflected net income of \$7.5 million for the six months ended June 30, 2017. The ratio of total equity to total assets was 8.75% at June 30, 2017, which compares to 8.96% at December 31, 2016.

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. At June 30, 2017, the Bank met all capital adequacy requirements to which it was subject and exceeded the regulatory minimum capital levels to be considered well-capitalized under the regulatory framework for prompt corrective action. At June 30, 2017, the Bank's ratio of total common equity tier 1 capital to risk-weighted assets was 10.91%, total capital to risk-weighted assets was 12.16%, Tier 1 capital to risk-weighted assets was 10.91% and Tier 1 capital to average assets was 9.75%.

In July 2013, the Federal Reserve published Basel III rules establishing a new comprehensive capital framework of U.S. banking organizations. Under the rules, effective January 1, 2015 for the Company and Bank, the minimum capital ratios became a) 4.5% "Common Equity Tier 1" to risk-weighted assets, b) 6.0% Tier 1 capital to risk weighted assets and c) 8.0% total capital to risk-weighted assets. In addition, the new regulations imposed certain limitations on dividends, share buy-backs, discretionary payments on Tier 1 instruments and discretionary bonuses to executive officers if the organization does not maintain a capital conservation buffer for regulatory risk based capital ratios in an amount greater than 2.5% of its risk-weighted assets, in addition to the amount needed to meet its minimum risk-based capital requirements, phased in over a 5 year period until January 1, 2019. The conservation buffer will be phased in incrementally, starting at 0.625% on January 1, 2016 and increased to 1.25% on January 1, 2017, 1.875% on January 1, 2018 and 2.5% on January 1, 2019. Accordingly, while these rules started to be phased in on January 1, 2015 (and the capital conservation buffer on January 1, 2016), the Company believes it is well positioned to meet the requirements as they become effective.

On January 25, 2017 the Company's Board of Directors declared a \$0.07 per share cash dividend, payable February 27, 2017 to shareholders of record on February 17, 2017. On April 26, 2017 the Company's Board of Directors declared a \$0.07 per share cash dividend, payable May 26, 2017 to shareholders of record on May 16, 2017.

Interest Rate Sensitivity Analysis

We measure interest rate risk using simulation analysis to calculate earnings and equity at risk. These risk measures are quantified using simulation software from one of the leading firms in the field of asset/liability modeling. Key assumptions relate to the behavior of interest rates and spreads, prepayment speeds and the run-off of deposits. From such simulations, interest rate risk, or IRR, is quantified and appropriate strategies are formulated and implemented. We model IRR by using two primary risk measurement techniques: simulation of net interest income and simulation of economic value of equity. These two measurements are complementary and provide both short-term and long-term risk profiles for the Company. Because both base line simulations assume that our balance sheet will remain static over the simulation horizon, the results do not reflect adjustments in strategy that ALCO could implement in response to rate shifts. The simulation analyses are updated quarterly based on data obtained one month prior to quarter end. The Company believes the one month lag has no material impact to the sensitivities presented.

We use net interest income at risk simulation to measure the sensitivity of net interest income to changes in market rates. This simulation captures underlying product behaviors, such as asset and liability repricing dates, balloon dates, interest rate indices and spreads, rate caps and floors, as well as other behavioral attributes. The simulation of net interest income also requires a number of key assumptions such as: (i) prepayment projections for loans and securities that are projected under each interest rate scenario using internal and external mortgage analytics; (ii) new business loan rates that are based on recent new business origination experience; and (iii) deposit pricing assumptions that are based on Office of the Comptroller of the Currency, or OCC, guidelines for non-maturity deposits reflecting the Bank's limited history, management judgment and core deposit studies. Combined, these assumptions can be inherently uncertain, and as a result, actual results may differ from simulation forecasts due to the timing, magnitude and frequency of interest rate changes, future business conditions, as well as unanticipated changes in management strategies.

We use two sets of standard scenarios to measure net interest income at risk. For the "core" scenario, rate changes are ramped over a twelve-month horizon based upon a parallel yield curve shift and then maintained at those levels over the remainder of the simulation horizon. Parallel shock scenarios assume instantaneous parallel movements in the yield curve compared to a flat yield curve scenario. Simulation analysis involves projecting a future balance sheet structure and interest income and expense under the various rate scenarios. Internal policy regarding internal rate risk simulations currently specifies that for instantaneous parallel shifts of the yield curve, estimated net interest income at risk for the subsequent one-year period should not decline by more than: 6% for a 100 basis point shift; 12% for a 200 basis point shift; and 18% for a 300 basis point shift.

The following tables set forth the estimated percentage change in our net interest income at risk over one-year simulation periods beginning June 30, 2017 and December 31, 2016:

Parallel Ramp	Estimated Percent Change	
	in Net Interest Income	
	June 30,	December 31,
Rate Changes (basis points)	2017	2016
-100	(2.24)%	(1.60)%
+200	(2.53)	(2.23)

Parallel Shock	Estimated Percent Change in Net Interest Income	
	June 30,	December 31,
	2017	2016
Rate Changes (basis points)		
-100	(4.42)%	(3.36)%
+100	(2.41)	(1.86)
+200	(5.35)	(4.13)
+300	(8.57)	(6.78)

The net interest income at risk simulation results indicate that as of June 30, 2017, we remain liability sensitive. The liability sensitivity is due to the fact that there are more liabilities than assets subject to repricing as market rates change.

We conduct economic value of equity at risk simulation in tandem with net interest income simulations, to ascertain a longer term view of our interest rate risk position by capturing longer-term re-pricing risk and options risk embedded in the balance sheet. It measures the sensitivity of economic value of equity to changes in interest rates. Economic value of equity at risk simulation values only the current balance sheet and does not incorporate the growth assumptions used in one of the income simulations. As with the net interest income simulation, this simulation captures product characteristics such as loan resets, repricing terms, maturity dates, rate caps and floors. Key assumptions include loan prepayment speeds, deposit pricing elasticity and non-maturity deposit attrition rates. These assumptions can have significant impacts on valuation results as the assumptions remain in effect for the entire life of each asset and liability. All key assumptions are subject to a periodic review.

Base case economic value of equity at risk is calculated by estimating the net present value of all future cash flows from existing assets and liabilities using current interest rates. The base case scenario assumes that future interest rates remain unchanged.

The following table sets forth the estimated percentage change in our economic value of equity at risk, assuming various shifts in interest rates:

Rate Changes (basis points)	Estimated Percent Change in Economic Value of Equity	
	June 30,	December 31,
	2017	2016
-100	0.10%	0.00%
+100	(11.00)	(9.90)
+200	(24.40)	(21.70)
+300	(35.10)	(31.30)

While ALCO reviews and updates simulation assumptions and also periodically back-tests the simulation results to ensure that the assumptions are reasonable and current, income simulation may not always prove to be an accurate indicator of interest rate risk or future net interest margin. Over time, the repricing, maturity and prepayment characteristics of financial instruments and the composition of our balance sheet may change to a different degree than estimated. Due to the low current level of market interest rates, the banking industry has experienced relatively strong growth in low-cost FDIC insured core savings deposits over the past several years. ALCO recognizes that a portion of these increased levels of low-cost balances could shift into higher yielding alternatives in the future, particularly if interest rates rise and as confidence in financial markets strengthens, and has modeled increased amounts of deposit shifts out of these low-cost categories into higher-cost alternatives in the rising rate simulation scenarios presented above.

It should be noted that the static balance sheet assumption does not necessarily reflect our expectation for future balance sheet growth, which is a function of the business environment and customer behavior. Another significant simulation assumption is the sensitivity of core savings deposits to fluctuations in interest rates. Income simulation results assume that changes in both core savings deposit rates and balances are related to changes in short-term interest rates. Lastly, mortgage-backed securities and mortgage loans involve a level of risk that unforeseen changes in prepayment speeds may cause related cash flows to vary significantly in differing rate environments. Such changes could affect the level of reinvestment risk associated with cash flow from these instruments, as well as their market value. Changes in prepayment speeds could also increase or decrease the amortization of premium or accretion of discounts related to such instruments, thereby affecting interest income.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk Management

Interest rate risk management is our primary market risk. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Interest Rate Sensitivity Analysis” herein for a discussion of our management of our interest rate risk.

Inflation Risk Management

Inflation has an important impact on the growth of total assets in the banking industry and causes a need to increase equity capital higher than normal levels in order to maintain an appropriate equity-to-assets ratio. We cope with the effects of inflation by managing our interest rate sensitivity position through our asset/liability management program, and by periodically adjusting our pricing of services and banking products to take into consideration current costs.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures:

The Company carried out an evaluation, under the supervision and with the participation of the Company’s management, including the Company’s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that as of the end of the period reported on in this report, the Company’s disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiary) required to be included in the Company’s periodic SEC filings.

(b) Change in internal controls:

There has been no change in the Company’s internal controls over financial reporting during the quarter that has materially affected, or is reasonably likely to affect, the Company’s internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company and the Bank are periodically involved in various legal proceedings as normal incident to their businesses. In the opinion of management, no material loss is expected from any such pending lawsuit.

ITEM 1A. RISK FACTORS

There have been no material changes in risk factors previously disclosed in the Company's Form 10-K for the year ended December 31, 2016, filed with the SEC.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The following exhibits are filed herewith:

31.1	Certification of Christopher R. Gruseke pursuant to Rule 13a-14(a)
31.2	Certification of Penko Ivanov pursuant to Rule 13a-14(a)
32	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following materials from Bankwell Financial Group, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2017, formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Statements of Financial Condition; (ii) Consolidated Statements of Income; (iii) Consolidated Statements of Comprehensive Income; (iv) Consolidated Statements of Shareholders' Equity; (v) Consolidated Statements of Cash Flows; and (vi) Notes to Consolidated Financial Statements.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 9, 2017

Bankwell Financial Group, Inc.

/s/ Christopher R. Gruseke

Christopher R. Gruseke
President and Chief Executive Officer

Date: August 9, 2017

/s/ Penko Ivanov

Penko Ivanov
Executive Vice President and Chief
Financial Officer
(Principal Financial and Accounting Officer)

CERTIFICATIONS

I, Christopher R. Gruseke certify that:

1. I have reviewed this quarterly report on Form 10-Q of Bankwell Financial Group, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting.
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: August 9, 2017

/s/ Christopher R. Gruseke
Christopher R. Gruseke
President and Chief Executive Officer

CERTIFICATIONS

I, Penko Ivanov certify that:

1. I have reviewed this quarterly report on Form 10-Q of Bankwell Financial Group, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting.
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: August 9, 2017

/s/ Penko Ivanov

Penko Ivanov

Executive Vice President and Chief

Financial Officer

(Principal Financial and Accounting Officer)

Exhibit 32

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, Christopher R. Gruseke and Penko Ivanov hereby jointly certify as follows:

They are the Chief Executive Officer and the Chief Financial Officer, respectively, of Bankwell Financial Group, Inc. (the “Company”);

To the best of their knowledge, the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2017 (the “Report”) complies in all material respects with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and

To the best of their knowledge, based upon a review of the Report, the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ CHRISTOPHER R. GRUSEKE

CHRISTOPHER R. GRUSEKE

President and Chief Executive Officer

Date: August 9, 2017

/s/ PENKO IVANOV

PENKO IVANOV

Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: August 9, 2017

The foregoing certification is being furnished solely pursuant to 12 U.S.C Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.
